THE POLITICS OF PLENTY

THE POLITICS OF PLENTY

By

H. NORMAN SMITH

London
George Allen and Unwin Ltd

First published in 1944

Printed in Great Britain by T. and A. CONSTABLE LTD.,
at the University Press, Edinburgh

Contents

Chapter I

NATURE'S GENEROSITY

What an uproar there would have been if, about the time of the Eighth Army's great victories in North Africa, the Prime Minister had risen in the House of Commons and announced: "Mr. Speaker—I have to inform the House that in the opinion of His Majesty's Government the war is costing far more than the nation can afford. Year by year the Budget is being seriously unbalanced; the financial position is now desperate and His Majesty's Ministers are convinced that to prosecute the war to a successful conclusion is beyond the financial resources at our disposal. Accordingly we are making approaches to Herr Hitler through the Swiss Government in order to ascertain what peace terms he is willing to accord us, short of unconditional surrender."

The bare idea of such a statement being made by the Prime Minister seems preposterous; yet it would have been in strict accord with peacetime tradition and practice. Time and again during the nineteen-thirties Parliament considered the plight of those extensive districts of Great Britain which, suffering acutely from industrial depression, were known officially as "special areas": invariably the responsible Ministers, while not denying that the breakdown of industry in these areas had produced a condition of intense and chronic human suffering, would solemnly represent to the House of Commons that financial stringency rendered impossible any effective action to alleviate the widespread misery entailed. Throughout the whole inter-war period politics were dominated by Finance, which over and over again planted its red light in the path of social progress. To propose more adequate pensions for aged workers was to meet the rebuff: "The nation can't afford it." To suggest raising the school-leaving age to 16 and paying maintenance grants to the parents of children over 14

was to invite the retort: "Where is the money to come from?" Every year thousands of human beings, including children, were killed or maimed on the roads because the highways had not been adapted to modern traffic requirements. "It would not pay!"

But the war changed all that. No one, after September 3, 1939, dreamed of asking: "Can we afford to resist Hitler? Have we the money to defend ourselves against aggression?" The contrast between peacetime parsimony and wartime prodigality is obvious even to the least politically-minded citizens; and popular feeling was summed up by Field-Marshal Lord Wavell in an address to the Pilgrims' Club, reported in *The Times* of September 16, 1943: "It has always seemed to me a curious fact that money is forthcoming in any quantity for war, but that no nation has ever yet produced money on the same scale to fight the evils of peace—poverty, lack of education, unemployment, ill-health."

The answer to Lord Wavell may be given in one word, DEBT. We have been paying for this war, as to the lesser part of its cost, in taxation of a weight which in peacetime would have aroused bitter resentment from the well-to-do if levied for such social purposes as the replacement of the slums or the abolition of poverty; and, as to the greater part of its cost, through piling up debt to an extent which, if attempted in peacetime for social purposes, would have brought all business to a standstill by "destroying confidence." Throughout this war the Budget has been unbalanced to the tune of no less than £7,000,000 a day. That is the measure of increasing National Debt since 1939, yet the City of London has not raised a murmur. But the second Labour Government was destroyed in 1931 for the sake of a trifle of £34,000 a day, as testified by the late Mr. William Graham, who was President of the Board of Trade from 1929 until the formation of the "National" Government in August, 1931. He told the House of Commons on September 10, 1931: "It was specifically put to the late Ministers that unless one item in particular—a 10% cut in unemployment benefit to yield

£12,250,000—was included in the programme, it would not restore confidence, and we were told no other item could be put in substitution. . . . Let the House be under no misapprehension: it was because of an outside insistence on that specific point that the late Government broke."

Engineers and other practical people who have to deal with material things and take account of Nature's laws will find it curious that a nation should pay its war bill by piling up debt to burden future generations. They know very well that, if one thinks in terms of real things and not of money tokens, any war has to be paid for as it goes along. It is quite impossible for us to bomb Berlin in 1944 with airplanes that will not leave the conveyor belt until 1954, yet we shall be paying in 1954 for the bombing of Berlin in 1944, just as we were paying in 1915 for the Battle of Waterloo in 1815. Debt is a banker's conception which has no parallel in physical science. No engineer could tell you how to use up in January a thousand horse-power that will not be generated until February.

Happily for the human race, Nature gives us a very great deal for nothing. The sun obligingly pours out an unending stream of energy for us to tap; and since James Watt in the latter half of the eighteenth century made the steam-engine a commercial success we have been in the truly fortunate position of being able to tap, with power-driven machinery, energy which the sun was pouring out countless centuries ago when the coal-fields and oil-measures were being formed. Down to the era of Watt our ancestors lived under conditions of Scarcity because they were dependent wholly on the sun's contemporary outpourings of energy. Apart from windmills and waterwheels they had at their disposal only the energy of human beings and tamed animals —that is to say, the energy derived from the current year's sunshine and made available through the sun-ripened crops on which men and animals were wont to feed. But a magic change was wrought by the coming of the Power Age. Stored sunshine enables me to write this chapter in a room lighted by electricity

and warmed with a coal fire. The electricity was generated in a power-station where crude oil from the West Indies is burned in Diesel-engine cylinders; the coal was mined in Warwickshire. Coal-seams and oil-deposits alike owe their existence to the sunshine of a very remote past; but not until the 1760's, when Watt consummated his work, and the 1870's, when Otto devised the first workable internal-combustion engine, did man learn how to adapt this stored sunshine to his use. Pioneers like Otto and Watt lifted the curtain on the new Age of Plenty: many of our difficulties arise from the circumstance that, though our material environment has thus been revolutionised through the substitution of Abundance for Scarcity, most of us still retain the scarcity complex inherited from thousands of generations of our forebears who lived under conditions in which Plenty as we know it was unthinkable.

We in this generation do indeed, as I shall show in Chapter V, live in a scientific Age of Abundance in which, thanks to the work of generations of scientists and inventors, there is the physical possibility of mankind's having more than enough of food, of clothing, of everything needed to give everybody a decent, care-free life. (Food, it is true, may well continue to be scarce for a period after this war ends; but the world's agriculture, helped powerfully by the chemist and the engineer, may be depended upon to overtake the shortage.) This is in truth an era of physical plenty; but by contrast, as we shall see presently, it is also an epoch of financial scarcity due to the inadequacy of the methods by which money finds its way into the pockets of most of us. The money system as run by the bankers does not fit in with Nature's bounty. If the sun's generosity in the provision of energy is prodigal, the bankers' frugality in the supplying of money is absolute. Whereas Nature through science and invention enables us to make ever more copious drafts on the sun's free gifts of energy, our bankers' drafts take the form not of free gifts but of repayable loans; with the result that, as Lord Wavell observed, in peacetime "there is no money" even for such

desirable social reforms as adequate old-age pensions and more complete education.

The difference between Nature's laws and bankers' laws produced before this war a state of things in which New Zealand farmers used to drive sheep like so many Gadarene swine over cliffs into the sea because there was "*too much mutton*" for the market; yet many English families were, perforce, enduring meatless days they would gladly not have had to suffer. Many readers will recall the incident—reported widely in the newspapers at the time—of a cargo of oranges being dumped into the Irish Channel off the Mersey bar, for "market" reasons: as if children in Liverpool slums had not been going short of vitamins! It was a commonplace to read of coffee being tipped into the sea to keep coffee prices from slumping, of wheat for similar reasons being burned, of wine being poured down Bordeaux drains; yet all the time human beings were going short of coffee, of bread, of wine. Sir John Orr's official report, *Food, Health and Income*, disclosed that 13½ million people out of the 47 millions *inhabiting these islands were gravely under-nourished:* a *piece* of evidence which puts the destruction of food surpluses in a strange light! In pre-war days machinery in idle factories was rusting, farms were going out of cultivation, coal-seams were being abandoned, ships were laid up in river estuaries: while all the time very many human beings were eating out their hearts because "there was no money" to set them to work on idle machinery, farms, mines or ships supplying their own unsatisfied needs. This condition of things was described tersely by the League of Nations Delegation on Economic Depressions in its report, published in May, 1943, under the title *The Transition from War to Peace Economy*[1]: "The conscience of the pre-war world was shocked by the co-existence of large unsaleable stocks of foodstuffs and raw materials, part of which from time to time was deliberately destroyed, and of want and deprivation even in the richest countries. Something was so radically wrong

[1] London: George Allen and Unwin Ltd.

with the functioning of the economic system that the fundamental assumptions of economic thought came to be questioned. The economics of consumption came to replace the economics of production."

The purpose of this book is to question the fundamental assumptions of economic thought; to suggest a method whereby the economics of consumption may become practical politics. Briefly, the method consists in the substitution of a system of State-created debt-free money for the existing system of bank-created debt-money. The essence of any system of debt-free money is that purchasing power shall be made available to consumers directly: contrariwise, a cardinal axiom of the existing monetary system is that no money shall ever be issued to consumers directly, but that all money shall start its existence as a loan to producers.

I hope the League Delegation was right in saying that the public conscience was shocked because financial considerations necessitated the destruction of food at a time when people were actually enduring hunger; but I am not at all sure the Delegation was right. During the economic blizzard of the nineteen-thirties, when unemployment was soaring in every country except Soviet Russia, the British "National" Government commanded widespread public support in its efforts to put twentieth-century technology into the strait-waistcoat of nineteenth-century finance. Farmers were fined for growing "too many" potatoes, the production of bacon was restricted by legislation, landowners were paid for not growing hops—all of which might have been understandable if everyone in the country had had enough to eat, but was a downright scandal in the light of Sir John Orr's revelations concerning the appalling extent of under-feeding. One of the most revealing incidents of this incredible epoch was the action of the Bank of England (an institution which most people quite wrongly associate with all that is solid and praiseworthy in our national life) actively assisting the promotion of a commercial organisation, known as Shipbuilders' Security Corporation Limited, to buy up shipyards, close them down and break up

their machinery: that, at a time when far-seeing people must have known that we should soon be needing every ship we could get to defeat the U-boats! Whatever else may be said of the system by which the bankers ran the nation's monetary affairs between the two wars, this much is certain: the system did not work! To the alleged imperative necessity for balancing the Budget was subordinated everything in our national life—industry, agriculture, politics, human well-being itself: with results that historians will not fail to condemn as disastrous. As Mr. Oliver Lyttelton, Minister for Production, told the Institute of Chemical Engineers in London on April 2, 1943: "The condemnation of our pre-war world was that it permitted resources to be unemployed." Our pre-war world did that indeed—resources not only of human labour, but also of productive plant which was kept idle because its operation "would not pay." That is what I mean when I say that our industry between the two wars was subordinated to finance. But there is a growing opinion that finance ought to take a back seat in peacetime as it has done in wartime. The League Delegation already quoted is suggesting that the first objective of economic policy after this war ought to be to ensure "that the fullest use possible is made of the resources of production, human and material, of the skill and enterprise of the individual, of available scientific discoveries and inventions, so as to attain and maintain in all countries a stable economy and rising standard of living." This book seeks to show that the imperative condition of such an economy is a complete change in monetary policy.

Chapter II

THE THRALL OF DEBT

There was no failure of production before the war: on the contrary, thanks to the scientists and inventors who are the real architects of progress, our ability to produce an abundance of the needs of life grew steadily greater. Yet there was persistent trade depression, relieved only by occasional periods when, things being not quite so black as usual, people managed to persuade themselves there was a boom. The last pre-war boom was in 1937; the one before that, in 1929: and whereas in the 1937 boom as compared with the 1929 boom the volume of British output as measured by the Board of Trade returns was up by 27%, the volume of British unemployment as measured by the Ministry of Labour returns was up by 25%. There was a quarter more output, accompanied by a quarter more unemployment. People are beginning to realise that increasing unemployment is the natural consequence of improving technology—the magic wand of the scientist or inventor transforms the productive factories in such a way as to achieve greater output with less labour. This need not frighten anybody—standards of living depend, not on labour, but on output. Nor is the steady growth of unemployment in itself an unhealthy sign: if, with less work done in our factories, we can get the greater output we need, then the possibility of leisure opens out for mankind. Part of the purpose of this book is to suggest that the provision of full employment is a less desirable social objective than the provision for everyone of the maximum leisure attainable consistent with a very high standard of living for all.

You will not grasp the true nature of the economic problem unless you bring yourself to realise that the process of improving technology is a cumulative process and one that cannot, in the

nature of things, be reversed. Whereas invention used to be haphazard and capricious, depending on cranks in cellars or attics, nowadays it is organised and continuous, resulting from the systematised research of big firms or public laboratories in close touch with each other. Wartime sees a great speeding up of technological improvement (as I propose to prove in a later chapter) for the reason that the decisive urge of external peril overcomes the opposition of the vested interests which in peacetime tend to resent and resist technical innovation on the ground that it disturbs existing investments. A distinguished industrialist, Mr. Samuel Courtauld, has testified in a pamphlet, *Government and Industry*, published in 1942: "There is a practice much in vogue which is liable to great abuse—i.e. the taking out of blocking patents. Industrialists sometimes take out patents not to exploit them seriously, but with the deliberate intention of preventing others from trying out new and improved methods which may render their own methods obsolete and endanger their invested capital." But that sort of pernicious practice disappears in war: the outbreak of international conflict is the signal for the opening of the floodgates of discovery and invention on a scale that accelerates technological progress in the superlative degree. It is axiomatic that, whatever last year's output, this year's can assuredly exceed it: that being so, there is the physical possibility of an ever improving standard of living—provided that with every increase in output there is a corresponding and proportionate increment in people's financial claims on the output.

But alas for human folly! Whereas Nature persists in being prodigal, Finance has so far refused to accommodate itself to Nature's bountiful mood; with the result that our mounting curve of unemployment is accompanied by a parallel curve of increasing debt. In the decade before the 1914 war, unemployment in this country averaged not more than half a million; in the nineteen-twenties, it was of the order of a million; in the nineteen-thirties, a million and a half. As I write, British agricultural and industrial output stands at an all-time high record;

yet this country has not fewer than five millions of its most vigorous citizens in uniform and therefore unemployed so far as output is concerned. As for debt (omitting all consideration of municipal obligations, company debentures and farming credits the figures of which, if available, would strengthen my case enormously), the British National Debt in 1913 stood at £635 millions; in 1920 it was £7,800 millions, by 1939 it had swollen in peacetime to £8,400 millions; and to-day it is not less than £20,000 millions. Whereas the scientist would say that every British baby is born heir to the stupendous achievements of Newton and Arkwright, Watt and Stephenson, Faraday and Parsons, the banker says: "No! On the contrary, every British baby is born with not less than £400 of debt entered against it in bank ledgers!" It is no answer to say that the baby has a corresponding entry on the other side—some babies have, others have not. I propose to show in this book that the system of debt-money is frustrating the possibilities of a scientific Age of Abundance; and it is relevant at this stage to quote the only estimate known to me of the growth in the aggregate indebtedness of the world. I give the figures presented by an American, Robert E. Doane, in *The New Outlook* for July, 1933; and for the greater convenience of English readers I have converted dollars to sterling at the rate of $5 equals £1:

TOTAL WORLD DEBT

Date	£ (*millions*)
A.D. 1500	80
1600	200
1700	300
1800	1,600
1900	80,000
1929	140,000

I have mentioned that in 1931 the second Labour Government was broken because it refused to save £12,250,000 a year by

cutting unemployment benefit. That was an illustration of the impact of debt-finance on our politics. You break all bankers' rules when you pile up debt to alleviate human suffering through making over-generous payments to the unemployed. That Labour Government was represented as wasteful, though as a matter of cold fact Britain was assuredly not "living on its capital" at that period. Production in 1929-31 most certainly exceeded consumption. So far from being prodigal in the sense of consuming more than we produced, we were actually destroying unsaleable surpluses rather than allow them to be consumed. The offence of the second Labour Government consisted *in this*: that it was unbalancing the Budget in order to provide impecunious consumers with money. I propose to show in this book that to unbalance the Budget is not only desirable: it is essential if the industrial system is not to break down for lack of buyers.

Let us at this stage consider for a moment the impact of debt-finance on an industrial system which, as we have seen, is subject to continuous modification by technological improvement. Assume in the first place that, while this year's output of goods is greater than last year's, the money supply remains constant. Because the same money has to distribute more goods, there is almost certain to be a fall in prices. Every business man knows that when prices fall confidence is diminished, buyers hold off the market for a further fall, stocks accumulate, production slows down, unemployment goes up: all the symptoms of trade depression show themselves. And if, as happened in 1931, the Bank of England by selling securities actually diminishes the money supply, the trade depression assumes the dimensions of an economic blizzard. Such were the melancholy business conditions during a large part of the time between the two wars. Given a system of debt-money, it is impossible to provide the financial conditions of abounding business prosperity without a formidable increase in National Debt such as this country experienced in the 1914 war and is experiencing now. Only in wartime indeed

is prosperity within the reach of very many people, among whom are miners, merchant seamen and farm-workers.

Additional money is obviously needed to cope with the additional output that arises from improved technology. From what source can the additional money come? Under existing financial rules it can come legally from only one source, namely, the banks. (Forgers and coiners are other possible sources of additional money supply, but the operations of forgers and coiners are illegal and are visited with heavy punishment at the hands of the law.) Bankers increase the money supply through putting into circulation loans that pass from one bank account to another in the form of cheques. There is no need to introduce artificial and quite meaningless distinctions between "credit" and "money." It makes no difference to my retailer whether I pay for a clock with five one-pound notes, or forty half-crowns, or a cheque for five pounds drawn on my bank. For the purposes of my argument "money" and "credit" mean the same thing, and they are in truth the same thing because both are measured in the same unit (pound sterling) and both circulate indifferently as purchasing power in a market which is only too pleased in peacetime to recognise either! Anyhow, metal coins (not more than £60 millions in a normal peacetime year) and banknotes (say £400 millions in such a year) were the "small change" of business. Most money consisted of some £2,100 millions of bank deposits circulating by cheque from one account to another.

It is necessary to grasp the exact nature of bankers' loans, because on this hinges the whole question of whether or not it is possible to have a system of State-created debt-free money. If I lend you five shillings, the loan is a genuine one in the sense that I part with what you receive; but a banker's loan is not like that. Banks by book entry lend what they have not got and never did have. The process is described shortly in paragraph 74 of the Report of the Macmillan Committee on Finance and Industry, a document (Cmd. 3897) published by H.M. Stationery Office in 1931 at the price of five shillings. Para. 74 said:

It is not unnatural to think of the deposits of a bank as being created by the public through the deposit of cash, representing either savings or amounts which are not for the time being required to meet expenditure. But the bulk of deposits arise through the action of the banks themselves: for by granting loans, allowing money to be drawn on overdraft or purchasing securities, a bank creates a credit in its books which is the equivalent of a deposit.

So important is this fact of the bank-creation of practically the whole of the money by which the industry and commerce of Great Britain are sustained, that I propose to quote in full the rest of that paragraph 74 in the Report of the Macmillan Committee—the signatories to which, bear always in mind, were orthodox bankers or business men like the Hon. R. H. Brand, the present Lord Keynes, Mr. Lennox B. Lee and the late Mr. Reginald McKenna. This is how they went on to describe the process:

A simple illustration, in which it will be convenient to assume that all banking is concentrated in one bank, will make this clear. Let us suppose that a customer has paid into the bank £1000 in cash and that it is judged from experience that only the equivalent of 10% of the bank deposit need be held actually in cash to meet the demands of customers; then the £1000 cash received will obviously support deposits amounting to £10,000. Suppose that the bank then grants a loan of £900; it will open a credit of £900 for its customer, and when the customer draws a cheque for £900 upon the credit so opened that cheque will, on our hypothesis, be paid into the account of another of the bank's customers. The bank now holds both the original deposit of £1000 and the £900 paid in by the second customer. Deposits have thus been increased to £1900, and the bank holds against its liability to pay out this sum (*a*) the original £1000 of cash deposited and (*b*) the obligation of a customer to repay the loan of £900. The same result follows if the bank, instead of lending £900 to a customer,

purchases an investment of that amount. The cheque which it draws upon itself in payment for the investment is paid into the seller's bank account and creates a deposit of that amount in his name The bank, in this latter case, holds against its total liability for £1900 (*a*) the original £1000 of cash and (*b*) the investment which it has purchased. The bank can carry on the process of lending, or purchasing investments, until such time as the credits created, or investments purchased, represent nine times the amount of the original deposit of £1000 in cash.

It is crystal-clear that the money which the banks lend, so far from being money which somebody else has first lodged in the bank for safe custody, is (as to most of it) money which the banks *themselves create out of nothing* by book entry and lend as a debt owing to themselves, thus increasing to the full extent of the amount of the loan the quantity of money circulating in the country. Until the loan is repaid it bears interest which accrues to the bank as revenue (though the bank in making the loan has not actually parted with anything), when the loan is repaid, the amount of it is cancelled out of existence by the bank, and to that extent the quantity of money in circulation is diminished.

The first objection to this system of bank-created debt-money is that it gives the banker vast power over the lives of the rest of us. He decides who shall get loans and who shall not. He approves one channel of industrial investment and disapproves another channel, without necessarily having regard to social well-being. He would rather make a loan to the promoter of a greyhound racecourse than to the founder of a hospital, because the racecourse is much more likely than the hospital to recover from the general public the funds for repaying the loan.

Experience has made business people aware of the power which banks exercise—so often to the detriment of manufacturers, farmers or traders, who find themselves "caught on the wrong foot" through the untimely calling in of a loan. This is the

method by which, when trade depression is really serious, banks are able to force the liquidation of assets at knockdown prices and thus acquire valuable property for themselves cheaply. No one doubts that banking is immensely profitable even in times of slump, or that the big banks have amassed for themselves an immense quantity of hidden reserves.

But this book is concerned less with the toll which banks levy for their services than with the power wielded by bankers and the manner in which the system of bank-created debt-money thwarts the aims of science and invention. I find it easy to produce evidence of the bankers' power, for they themselves, so far from denying it, admit it. *The Times* of March 21, 1930, reported a meeting of Bank of England shareholders at which Mr. E. T. Hargreaves remarked in the course of a speech: "The Governor and his assistants hold the hegemony so far as this country is concerned in finance; and I think I may say they also hold the hegemony of the world." Now "hegemony" is defined by Webster's Dictionary as meaning "preponderance of authority or control"; and to assert that Mr. Montagu Norman, as Governor of the Bank of England, held the hegemony of this country, let alone the whole world, was to claim that he exercised something approaching the powers of a dictator. Yet Mr. Norman himself was reported as saying in reply: "I was glad to note what Mr. Hargreaves said about hegemonies in one place or another. I believe it is largely true so far as overseas are concerned. I like to hope, too, that we may see during the next period of ten years a similar hegemony in this country, in which the Bank of England may play a not inadequate part." Evidently the Governor of the Bank was contemplating something like a Norman Conquest, which should set him up as usurper of what is supposed by most British citizens to be the prerogative of Parliament in a democratic country! Certain it is that within eighteen months the Labour Government of that day had been broken by "outside interests" (as Mr. William Graham called them), among which the Bank of England and its Governor figured prominently, for Mr. Norman

was in close touch with 10 Downing Street and with the Parliamentary Labour Party in those fateful days of August, 1931. You may ask just how did the Bank of England break the second Labour Government. The answer is that by what are called "open market operations" (in this case, selling securities to the public and cancelling out of existence the money wherewith the public paid for the securities) the Bank of England reduced the total "cash at the Bank of England" held by the commercial banks, which in turn forced a tenfold reduction in the total deposits of those banks. (The process is described fully in paragraph 71 of the Macmillan Report.) Normally, because of the increase in population and other factors, bank deposits rise by 3% per annum; during the second Labour Government's tenure of office the Bank of England actually pushed the total of London Clearing Bank deposits down from £1,758 millions to £1,699 millions, which was sufficient to intensify business depression to the point of political crisis.

Mr. Winston Churchill is a witness to whom most people will lend respectful attention; and Mr. Churchill has testified how "the highest financial experts" (and what financial expert in London could be higher than the Governor of the Bank of England?) persuaded him when he was Chancellor of the Exchequer in 1925 to take a step—the return to the gold standard—which produced disaster for British industry. Seven years later—on April 21, 1932—the House of Commons was discussing the first regular Budget after Great Britain in 1931 had been forced to discontinue the calamitous experiment of tying its industry to the gold standard; and Mr. Churchill, by that time free from the responsibilities of office, said: "When I was moved by many arguments and forces to return to the gold standard I was assured by the highest experts that we were anchoring ourselves to reality and stability, and I accepted their advice. I take for myself and my colleagues of other days whatever degree of blame and burden there may be for having accepted their advice. But what has happened? We have had no reality, no stability.

Mr. Churchill might have quoted the evidence of the Macmillan Committee, which had said (para. 113):

> For a period commencing some time after the War, the currency policy of the country was directed to the reduction of the inflated price level of the War and immediate post-war period preparatory to the return to gold. This necessarily involved a reduction of money costs of production. It is probable that equilibrium had not been achieved even prior to the return to gold, and there was, moreover, a marked difference between the behaviour of costs in the so-called sheltered and unsheltered industries. But the return to gold in 1925 itself required the reduction of sterling prices and, consequently, of money costs of production to an extent which is variously estimated. At any rate, *the actual situation which was disclosed in the years following the return to gold marks that step as the beginning of a new series of difficulties for our trade and industry.* Whatever the disequilibrium between costs and prices which still existed in 1924, it was seriously accentuated by the adjustment of sterling prices to gold prices.

The italics are mine, not the Committee's; but the italicised passage is an eloquent condemnation of the Bank of England's persistent efforts to put this country back on the gold standard from which it had been driven by the shock of war in August, 1914. The return to gold, enacted in good faith by a trusting Winston Churchill on the urgent representations of the Bank of England, was followed in swift succession by the 1925 coal lock-out, the coal subsidy, the 1926 coal lock-out and the General Strike! The Labour Movement at that time blamed the mine-owners; but really the mineowners, in seeking to cut the miners' wages, were only trying (as the Macmillan Committee said in the passage quoted above) to reduce money costs of production to meet the situation created by the action of Mr. Norman[1] and

[1] Since this was written, Mr. Norman has ceased to be Governor of the Bank; but that circumstance does not in any way affect the argument, which is wholly impersonal and concerned only with principles.

Mr. Churchill in raising artificially the exchange value of sterling.

Mr. Churchill's implied reflection on the Governor of the Bank of England was mild compared with the sweeping censure handed out by a Conservative M P and former Minister of the Crown, Mr Robert Boothby, who wrote in his book, *The New Economy*, published in the autumn of 1943:

> In every major aspect of his policy Mr. Norman has proved to be wrong. He was wrong over the American debt settlement. He was wrong in returning to the gold standard He was wrong in clinging to gold at an untenable parity of exchange. He was wrong in giving his support to a policy of industrial restriction at home. He was most fatally wrong in allowing money to be poured into Germany during the 1920's and in giving financial support to the Nazi Government during the 1930's.

My first objection to the system of bank-created debt-money —that it gives undue power (call it a "hegemony" if you like) to persons who are not responsible to any elected body—seems to have ample support behind it—and from people who are not undistinguished. Evidently in this country our supposed democracy is more apparent than real. No wonder Mayer Anselm Rothschild, founder of that illustrious house, wrote at the end of the eighteenth century: "Give me control of a nation's money and I care not who makes its laws!" The same sentiment has been expressed less classically and more colloquially in the form of a Limerick:

> The people still go to the poll,
> And think they have final control;
> But really they dance
> To the tunes of Finance,
> Consoling themselves with the dole!

And if you seek enlightenment concerning the objectives to the achievement of which the bankers exercise their hegemony,

you may find it in the following quotation from *The Bankers' Magazine* for August, 1943. "Is there not also a tendency in much of this modern planning—not forgetting the Beveridge Plan—to overlook the fact that, human nature being what it is, the workers of the future, capitalists and wage-earners alike, will require the old spur of rewards and punishments (good profits and good wages, fears of losses and bankruptcy, and, yes, fears of unemployment and poverty) to ensure the necessary drive in this world of internal and international competition?" If these words mean anything at all, they mean that a few men, exercising the hidden hegemony of finance, are to keep the mass of their fellow-men in economic subjection, even if it involves setting at naught our cherished principles of democracy and depriving most of us of the comfortable leisure made possible by technology.

Chapter III

THE BANKERS' TOLL-BRIDGE

The second objection to the system of bank-created debt-money is the obvious one that it burdens the community with interest charges that might be justifiable if the lender parted with something, but are quite indefensible when the loan is a mere book transaction and the lender parts with nothing

After this war the State must take back from private bankers the right to create money and lend it at interest. I am concerned in this book less with methods of administration than with principles underlying policy: I am concerned mainly to advocate what I regard as a fundamental principle, namely, that if anyone is to create money out of nothing it should surely be the community acting through the Government If benefit of interest on created funds is to accrue to anyone, it should surely accrue to the whole community and not to private individuals or companies.

Not that the State ever did confer on the banks any legal monopoly of this right of credit-creation: on the contrary, the practice grew up over a period of years as the natural consequence of the increasing use of cheques by the public. Bankers found by experience that they could safely lend some nine times the amount of money actually confided to their care, and they proceeded to lend it There will be no need to compensate them when their opportunity is taken away—let them be content with the profits they have made in the past, and let them in future restrict their operations to the lending of such funds as they actually have! It would be necessary to enact that as from a given date bank deposits should not vary by more than, say, 5% from the actual figure on that date. Thereafter the creation of any further supplies of credit needed by industry, municipalities or the Government would be the exclusive function either of a nationalised

Bank of England or of a National Credit Authority established for the purpose If you object that the commercial banks under such conditions would not be able to make a profit, I reply that they should proceed to charge their customers for keeping their accounts It is a great convenience to anyone to have a current account with a bank and make payments by cheque—a convenience for which people have been paying little or nothing, but one for which I do not doubt they would be willing to pay

Consider now the consequences of a State monopoly of the right to create money. The first and highly beneficial result would be the abolition of interest in the case of loans for such socially beneficial purposes as housing—to mention but one instance. The late Mr. John Wheatley, when Minister of Health, startled the House of Commons on June 4, 1924, when he analysed the contributory factors in the rent of a £500 Council house as follows: due to cost of site, 1½d. a week; due to cost of building materials, 1s. 10½d a week; due to cost of building labour, 1s. 3d. a week; due to loan charges, 6s. 6d. a week. total, 9s. 9d. a week. The Macmillan Committee pointed out (para. 238): "A fall from 6% to 4½% in the rate of interest on loans against houses is nearly as good as a fall of 25% in the cost of production, when it comes to calculating the minimum level of rent which will prove profitable."

After this war, housing will be a leading issue in our national politics. The problem will be to erect the maximum number of good dwellings in the shortest possible time to let at the lowest practicable rents to returned Servicemen and others whose need of homes will be very pressing indeed. No more effective contribution could be made to the lowering of rents than the provision of interest-free loans for housing. The Labour Party in *Speakers' Notes* issued in the autumn of 1943 advocated, among other things: "The State should in any case maintain control over rates of interest and should, in the Labour Party's view, enable local authorities to borrow for approved housing schemes at a nominal rate of interest." There is only one satisfactory method

of providing loans either interest-free or at nominal rates of interest: the State should itself *create* the loan and thus by-pass the toll-bridge which bankers have erected in the money market. Why on earth should bankers be allowed to charge interest at so much per cent. per annum for loans in respect of which they part with nothing? If you lend your neighbour £1000 to build a house, you may not unnaturally require him to pay you interest for the duration of the loan, because you are parting with the money which he gets. But a bank loan, as we have seen, is different: the banker parts with nothing at all. He merely makes an entry in a book, crediting the borrower with the amount of the loan and enabling the borrower to draw cheques. If the banker charges 5% for the loan of, say, £600 for building a house, the interest charge of £30 a year adds 11s. 6d. a week to the rent. In other words, an interest-free loan knocks 11s. 6d. a week off the rent as compared with a loan at 5% per annum.

Of course, this proposal that the State should itself create the funds for housing and lend them interest-free to municipalities will arouse a frightful outcry! Bankers will certainly not like having their toll-bridge by-passed. But, I insist, why should they be allowed to go on charging interest for loans that cost them nothing at all—except a spot of ink, pens and paper? Not only bankers will be threatened by the proposal to issue housing loans interest-free. Those highly respectable money-lenders, the Building Societies, will join in the chorus of opposition. But ask yourself: which will be the more important consideration after this war—that people should get houses and get them at the lowest possible rents, or that folks with money to invest should find safe and remunerative investment openings? When I was demobilised after the last war I proceeded to get married and to buy a house. A Building Society charged me 6½% per annum for the accommodation. No one at the time seemed to think it was a scandal, which only goes to show how usage can induce human beings to regard even atrocities with good-natured toleration.

"But," you object, "once you set up a State-owned toll-free

bridge into the money market, no one will use the toll-bridges provided by bankers, Building Societies and others who have been getting a living by levying tolls." On that sort of reasoning you could equally justify highway robbery; but I do not think your argument really holds water. All I am proposing is that the toll-bridge should be by-passed in the case of loans for social purposes—of which housing is an obvious example. The State's toll-bridge would still exist for private loans, though the interest on such would accrue to the community and not to bankers. The National Credit Authority as I envisage it would be a kind of National Investment Board such as the Labour Party has long advocated. It would canalise genuine savings and direct them into socially beneficial investment at rates of interest depending on circumstances and on the nature of the investment. To the extent that it created new funds for State capital investment (say, building motor roads or constructing airports), any interest it charged would be in the nature of a tax on the undertaking and would, incidentally, provide revenue for the Exchequer which, under existing monetary conditions, would go into the pockets of money-lenders. But there is no reason under heaven why interest should be charged on loans for such social purposes as housing or the provision of a piped water supply to villages where now in dry seasons they have to carry water long distances. And you would be surprised if you realised how large a proportion of your local rates is due to the interest on loans raised by your local authority. If that body could get interest-free loans, down would come the rates. Bankers and Building Societies will not like the erection of a toll-free bridge, but tenants and ratepayers will; and there are more tenants and ratepayers than bankers or Building Society shareholders. "The greatest good of the greatest number" is not a bad political maxim.

"But," the puzzled reader may exclaim, "what you are advocating is so simple and would on the face of it release such immense productive forces that there must be a catch in it somewhere! There must be some factor you have overlooked."

Yes, it is simple—that the community should create its own money instead of paying interest to bankers who themselves create the money out of nothing. It is as simple as it seems, and there is no catch in it. Most audacious racket of all time is the lending at interest of created money which costs the lenders nothing to create. Only in recent years have the orthodox economists admitted that banks do in fact create money out of nothing. They used to deny it strenuously, and some of them still go on denying it. The late Viscount Snowden, when as Mr Philip Snowden he was the Labour Party's financial expert and I was a Parliamentary Lobby Correspondent, used to be icily sarcastic with me on the occasions when I suggested to him that banks created the funds they lent. And the entire Labour Party for nearly thirty years took its cue from Mr Snowden's hundred per cent. orthodoxy in financial matters. Many Labour Party people, including Members of Parliament, are still Snowdenites in monetary policy from sheer force of habit, although it was Mr Snowden who, with his orthodox financial faith carried to the extreme lengths of fanaticism, sank the Labour Party at the General Election of 1931. "They ran away," he hissed in that acid voice of his when he went to the microphone at the height of the contest and turned Labour votes by the hundred thousand into "National" votes And unfortunately, instead of denying the alleged need for tightening the belt in a world where production was abundant but consumers were half starved, the Labour Party, swallowing the bankers' dictum that "Budgets must be balanced," conceded the alleged necessity for "economy" and differed from its opponents only on the question of whether the rich or the poor should be the victims.

Perhaps I am unjust to Mr. Snowden in attributing to him the whole of the blame for the Labour Party's neglect to see through the financial system. The London School of Economics must also take a share of the responsibility. Socialists used to assert that the London School of Economics was founded to train the administrators of the future Socialist State; it has certainly had

the effect of keeping many Socialists in the strict path of financial orthodoxy. The School was saved from extinction shortly after the last war by the gift of £472,000 from the late Sir Ernest Cassel,[1] who was an international banker on the grand scale. Banking magnates are not as a rule Socialists—it is quite the exception for them to call each other "comrade"—but Cassel thus munificently endowed the London School of Economics. Always your London School product is orthodox about finance: though he wax enthusiastic about socialising mines or railways, he will make deprecatory noises if anyone suggests socialising credit. As I pass these pages for press the *New Statesman and Nation*, July 1, 1944, contains an advertisement under "Situations Vacant and Wanted" in which the Senate of the University of London invites applications for the Cassel Chair of Economics (with special reference to banking and currency) tenable at the London School of Economics, salary not less than £1250 per annum. While our politics remain a worker-employer dogfight, behind the political façade the credit-creators go on enjoying the substance of power.

Yet there are welcome signs that the Labour Party has at last had enough of orthodox finance. The proposal in *Speakers' Notes* that housing loans should be made available to municipalities at nominal rates of interest was in itself a staggering departure from Snowdenism, and the speech of Mr. Pethick Lawrence in the House of Commons on December 16, 1942, must have made Snowden turn in his grave. I quote the *Manchester Guardian's* report:

> Mr. Pethick Lawrence (Lab., Edinburgh) opened a debate on finance. "We have had a complete revolution in finance in the last two or three decades," he said. "Gladstone, no mean financier, would be shocked out of his senses if he were suddenly restored to life and confronted with modern ideas and methods of finance." Dealing with what constituted that revolution, Mr. Pethick Lawrence said that first and foremost

[1] The London *Evening Standard*, December 2, 1942.

the gold standard was not only dead but damned. The State had regained supremacy over currency, and the volume of credit, though nominally controlled by the banks, was in fact decided by Government policy. The price of credit was in reality dictated by the Government, and the general level of prices, including the cost of living, was to-day regulated by them. *It had been discovered that that which was economically possible could not be financially impossible.* That disposed of the exaggerated view held by some potentates of finance of their right to veto projects of national expansion on pure financial grounds. That did not justify the idea that the State, by creating credit indefinitely, could create unlimited wealth. "It is still true that we have got to cut our coat according to our cloth," he said, "*but the cloth is an economic cloth and not a financial cloth, as it used to be thought in days gone by.*"

The italics are mine, not the *Manchester Guardian's*; and the italicised passages give me Mr. Pethick Lawrence's support for my case, which is that the extent to which the nation's resources of productive power should be utilised ought to depend not on financial considerations but on physical considerations. If, for instance, the nation wants to build houses, the question should be: "Have we the skill, the labour and the materials?" not: "Have we the money?"—just as in war our output of tanks and airplanes depends wholly on our resources of skill, labour, materials and factory plant, not at all on rows of figures in bankers' ledgers. The first step towards giving effect to this change is to vest in a public authority the monopoly of credit-creation now exercised by private bankers.

Chapter IV

DRAINING AWAY PURCHASING POWER

Deep down at the core of the social and economic problem is this matter of the creation of money which, though itself costless, can be exchanged for commodities the production of which is costly in terms of industrial process. Are bankers to create and lend it at interest as they have been doing? Or is the nation to create its own credit and lend it (as the Labour Party proposes in the special case of housing) at nominal rates of interest to municipalities and other public bodies for approved schemes of social value? It is not a mere question of nationalising the banks or not nationalising them: the problem goes deeper than that, as we are about to see.

If interest has slain its thousands, sinking funds have slain their tens of thousands; and the most devastating consequences of the system of bank-created debt-money arise from the banks' practice of lending as a rule on short term only, thus compelling industry to rely for capital development either on investment by individuals out of income or on the widespread practice of ploughing back into industry the undistributed profits of companies. Both of these practices—so long as they are not compensated by the issue of money as a free gift to consumers—inevitably promote and perpetuate trade depression by draining away purchasing power from the retail market.

For, after all, retail purchase is the consummation of the whole industrial process. Industry exists, not to "find work" or keep people out of mischief; not even to afford lucrative outlets for the savings of investors, but to supply the needs of consumers. Whether the consumers get the goods or not depends on the mechanism of distribution, which is the financial system. The success or otherwise of a financial system is to be judged

by the criterion "Does it enable consumers to get all they want of goods and services as fast as industry is physically able to deliver those goods and services?" No one could honestly give an affirmative answer to this question in respect of the financial system as it functioned in the period between the two wars During that period, while the nation's productive resources were unemployed or under-employed, unsaleable surpluses were being deliberately destroyed—not because consumers would not have been glad of them, but because consumers lacked the money wherewith to pay for them The financial system, judged as a mechanism for distributing purchasing power to consumers, failed miserably: almost invariably the retail market was starved of purchasing power In peacetime there were plenty of goods in the shop windows, but many people had insufficient money in their purses. In wartime most people have sufficient money in their purses, but the goods are no longer in the shop windows If after the war we go back again to the bankers' system of debt-money, we shall go back again to the days of full shop windows and empty purses

The trouble with industry is that it has to perform two totally dissimilar functions at the same time: it has to deliver goods to the market and it has also to deliver purchasing power to the market. No one under bankers' laws may get money except through the channel of industry. You may get money in payment either for work done or for money lent. There is no exception to this rule—the apparent exceptions like pensioners or Government servants, for instance, get their money out of industry at one remove by way of the taxation system. Landowners derive their revenue from rents paid by industry; and so on

Industry, then, may be likened to a tank on the wall of a room, from which two pipes flow down to the floor. One pipe is the "goods" pipe, the other is the "money" pipe. Through the goods pipe flow the products of the industry—the finally consumable retail products (we need not bother about intermediate products; what happens to them happens inside the tank, and we

are concerned only with what flows out of the tank) Tabbed on the retail products are prices determined by the cost of production, which, under bankers' rules, must not be less than the sum total of all the disbursements made by industry in the various processes of manufacture from raw material to finished article. For the moment we will assume for the sake of simplicity that the prices are in fact no more than the sum total of the disbursements. The disbursements consist of wages, salaries and profits accruing to the workers or owners concerned, and they will flow through the money pipe into the market, where they become available as personal incomes to be spent on buying industry's output of finally consumable retail goods. The people in the consumers' market are the recipients of the incomes; and, provided all of them spend the whole of their incomes on retail goods, it is evident that they will possess collectively just enough money to meet the prices tabbed on all the goods that flow into the market in the same period of time. Just enough, but no more! At this stage, however, someone puts an "investment" pipe along the floor, draining off a proportion of the money that flowed through the incomes pipe out of the industrial tank; this proportion is pumped back into the tank. Inevitably, the result is that a corresponding proportion of the goods that have flowed into the market through the goods pipe find themselves in the position—if I may be allowed to mix my metaphors—of a person in the game of musical chairs who can find no chair to sit down on. These goods find no buyers with money, so they remain unsold in shop windows and trade depression is the outcome.

At this stage the apologist of the bankers' financial system will object: "But the investment money quickly finds its way back to the retail market as wages or profits paid out by industry in the manufacture of further goods: thus it becomes available to buy the goods distributed to that market in the previous cycle." This objection, however, is invalid for the excellent reason that though the investment money, flowing a second time through the industrial tank, undoubtedly does generate new incomes, it un-

deniably also generates an equivalent amount of new costs—without having extinguished the previous set of costs. The same sum of money can no more liquidate two sets of costs in a given period of time (the length of the period does not affect the argument: what matters is the respective rates of flow of prices, and of purchasing power) than one chair can accommodate two players simultaneously in the game of musical chairs.

To this the bankers' apologist offers another objection based on what is known as the "capital goods" argument. Let me at this stage explain the difference between "capital goods" and "consumers' goods." Consumers' goods are the final products of industry ready for passing over the retail counter into the hands of ultimate consumers who will proceed to use them and wear them out. Capital goods are intermediate products of industry, not sold retail, but useful only in further productive processes. A cotton loom is capital goods, but cotton thread is consumers' goods. A potter's wheel is capital goods, but a teacup is consumers' goods. Machinery, tools and implements are capital goods; and the term is usually stretched to include factory buildings, railways, freight vehicles and a host of other instruments which never reach the retail counter but are of use in the productive process. "Not all industry," argues the bankers' apologist, "is engaged in the manufacture of consumers' goods. Incomes are distributed in the manufacture of capital goods—in making new factories and industrial plant—and these incomes are available for purchasing the retail goods of the previous cycle rendered temporarily unsaleable through the draining away of incomes along the investment pipe."

This argument—which could be extended to apply to State expenditure on armaments or public works financed out of loan—is also invalid because, under bankers' laws, all capital expenditure (unless financed out of taxation) is subject to sinking funds or depreciation accounts. A soap manufacturer, for instance, spends £4000 to instal machinery which he reckons to last him ten years,

at the end of which period he will scrap the machinery and buy new. To pay at the end of the period for the new machinery he sets aside a sum of about £400 a year, which he recovers in prices from the consumers of his soap The money cannot be recovered from anyone else: industry's costs have to be got back from outside the tank, that is to say, from the retail market. If the manufacturer pays for the machinery in this way, out of his own trading profits, then this money, derived from retail prices higher than would be necessary in the absence of this provision for depreciation, represents monies disbursed by other manufacturers whose commodities to that extent are rendered unsaleable because the purchasing power necessary to buy them has been drained out of the market by the soap manufacturer. If on the other hand the soap manufacturer pays for his machinery with a bank loan, then the £4000 is taken by stages from the retail market, handed to the banker and cancelled. Sinking funds and depreciation accounts have identically the same effect by way of draining purchasing power from the retail market.

The orthodox objections to the charge that purchasing power is invariably short in the retail market so long as the "laws of sound finance" are observed have been well answered by that very attractive American writer, Mr. Stuart Chase, in *The Economy of Abundance*, from which I quote the following (pages 143 and 144):

> The capital goods sector is the point where reinvestment takes place. It is the flywheel of the whole capitalist process. Unless this wheel is actively turning, consumers are not supplied with adequate money; markets languish. Thus people get money and markets are made only through a roundabout method. They will not get enough money, and there will be no profitable markets, unless ever-expanding profits are re-invested in an ever-expanding capital goods sector. You see why this must be. Each year the capital goods sector provides more factories and machines for the manufacturing of con-

sumers' goods Customers will have money to buy the new goods only if the capital goods sector is busy making more factories for next year and supplying its workers with more wages and salaries. Round and round the spiral must go To put it in another way: As a result of the increasing application of science to industry, consumers are unable to purchase more than a continually decreasing fraction of industrial output In order to maintain existing levels of consumption, an increasing quantity of capital goods must also be constructed—leading ultimately to overproduction and excess capacity

Mr Chase in those last few words indicated the limit of the possibilities of the "capital goods sector" by way of distributing consumers' incomes. Mr. Fred Henderson, in his book *Money Power and Human Life*,[1] emphasised the factor of capital goods going into retail prices. I quote from pages 183 and 184:

> Not only is the consuming community unable to get the goods it produces by reason of this shortage of purchasing power, but the prices it has to pay for such goods as it does get include costs in relation to goods it does not get. It gets the final consumable article only; but it also pays, in costs which are proportionately reckoned into the price of the final consumable article, for intermediate and equipment goods which remain within the producing system, equipment generally more or less of a permanent character, remaining in operation and adding its proportion of costs and prices to many serials of production. The machine goes into "costs" and into prices; goes ultimately wholly into the prices of finally consumable products; and with every advance in the technique of production, this is the steadily increasing factor in costs and prices as compared with labour costs, whose ratio to total costs steadily diminishes. And against this factor in prices, no purchasing power goes into the consumers' market. We not only pay for the consumable goods we get, but we are also expected to pay in the prices

[1] London: George Allen and Unwin Ltd.

affixed to them for the extension and enlargement of the national credit in every sort of permanent equipment, for all the enhanced means of production from which, nevertheless, the community remains barred out by ownership consent and on terms of service for sustenance only. These payments, although finance-accountancy demands their inclusion in prices, cannot of course be met by the purchasing power available in the consumers' market; and so we get our chronic unmarketable surplus

The fact is that so long as money has to perform two functions—that of "tickets to consume" and at the same time that of a store of "wealth in itself" available for saving and investment—there will inevitably be a shortage of purchasing power in the consumers' market That such a shortage existed during almost the entire period between the two wars cannot be denied. It has always passed my understanding why the apologists of orthodox finance should contest so vehemently this charge against their system, that it keeps consumers' purchasing power in short supply; they may challenge the validity of the reasoning, but they cannot for a single instant pretend that events do not, in fact, happen exactly as though the reasoning were faultless! Nor does it avail them to fall back on the excuse (as they often do) that unequal distribution of incomes places too much money at the disposal of those who want to invest, and too little at the disposal of those who want to consume. This excuse—though valid so far as it goes, which is not very far—begs the whole question: the foregoing reasoning will have made it clear that even in (for example) an all-Co-operative economy where the incomes of all individuals were equal, there would still be a deficiency of purchasing power to the extent that the community set aside a proportion of its money revenues to finance extensions of its capital plant.

And this brings me to the all-important question of the effect of technology on an industrial economy in which capital plant has to be financed out of income or, what amounts to the same thing,

out of undistributed profits. Suppose I invent something of value to mankind—say, a pair of spectacles to enable the wearer to see clearly through fog and mist Imagine that I happen to possess the necessary gilt-edged securities to deposit as collateral with my banker, who, on the strength of them, proceeds to lend me £10,000 to build and equip my factory. He creates £10,000 of new money by book entry, enabling me to draw cheques which I pay away to my contractor and to the suppliers of my machinery. £10,000 of additional money is now circulating; the factory is ready to produce and you would think it was an asset to the nation. But orthodox finance says: "No! The factory, so far from being an asset, is a debt—the banker must be repaid his £10,000" So be it! I invite public subscriptions and raise from the investment market the sum of £10,000, which investors put up out of income and which I repay to the banker, who proceeds to cancel the sum out of existence. My original £10,000 loan came out of the banker's inkwell; its task accomplished, it goes back into the banker's inkwell. The position now is that though the community as a whole is potentially richer to the extent of the factory's possible output, the amount of money in the community's possession, so far from having been written up accordingly, remains exactly the same as it was before the factory went up. The only way, therefore, in which the factory's output can get to the public is for the public to buy my spectacles instead of someone else's saucepans or bicycles. This explains incidentally why advertising and publicity play so prominent a part in contemporary business life: more important, it explains why the system of debt-finance frustrates and defeats the purposes of the scientific age in which we live; it explains why the continuous improvement in technology is not accompanied by a parallel and proportionate improvement in the standard of living.

The perplexed reader may at this stage begin to wonder why the debt-money system has not broken down long ago, in view of its inherent defects. There are several explanations of why the financial system has managed to go on for so long as it has, despite

its evil consequences of recurring trade depression, widespread poverty, restricted output and political strife. One obvious reason is that the whole economy of Capitalism has been an expanding one, due to growing population and improving technology. Orthodox authorities have computed that the mere growth of population has justified a steady increase in the money supply of the order of 3% per annum, a circumstance which in itself would help to keep the business wheel turning over. (In 1928, the last pre-slump year, the increase in bank deposits was just 3%, in 1929, when the slump began, it was only 1·7%; in 1930 it fell to 0·17%; in 1931 there was an actual decrease of 2·4%.) Another factor that has tended to buttress the system has been the part played by bankruptcies and the writing-down of company capital through "reconstruction"; the former device, involving the sale of traders' stocks at knockdown prices, means the abandonment of all attempt to recover costs in prices, the latter device means the forgoing of creditor's claims against the community. The Macmillan Committee gave (para. 386) an indication of the scale on which investors' losses tend to correct the faults of the money system: "In 1928 the total amount subscribed for capital issues whether of shares or debentures of 284 companies was £117,000,000. At May 31, 1931, the total market value of these issues as far as ascertainable was £66,000,000, showing a loss of over £50,000,000, or about 47%. In fact, the public's loss has been greater, since many of these shares were no doubt sold by the promoters at a high premium. Still more striking, perhaps, 70 of the above companies have already been wound up and the capital of 36 others has no ascertainable value." The mere piling up of debt is itself, of course, an easy way out of the dilemma created by the shortage of money (provided it can be done, as in war, without loss of business "confidence"). Above all, the system has been kept alive for decades by the expedient of exporting surplus home products in exchange not for foreign products, but (as we shall see in Chapter VII) for the foreigner's paper acknowledgment of his indebtedness to this country. All these

expedients in combination have so far stalled off the collapse of the financial system; even so, it is doubtful if the system could have survived without the drastic surgery of war, which finds an unlimited market for the productive plant and boundless employment for all the citizens not actually in uniform.

The debt-money system might possibly work in a static society where no scientist ever wrested new secrets from Nature, where no inventor ever contrived new instruments of production; but in a *dynamic society* like ours, in which technology continuously augments the possible output (and, so far as one can foresee, will go on augmenting it at an ever-accelerating rate), there ought to be and there will have to be a corresponding increase in the purchasing power at the disposal of consumers unless industry is to stall for lack of buyers. The politics of Plenty must embody a financial technique that will make new money available to consumers, not as a debt to be repaid, but as a free gift to balance Nature's free gift of increased output due to continuous technological improvements which have the effect of augmenting uninterruptedly the toll men take of solar energy.

Obviously the old-time Socialist notion that you can make the poor better off only to the extent that you take from the rich is totally inadequate to the policy needs of the nineteen-forties. Sir William Beveridge's security plan, so far from increasing the spending power available to consumers, merely redistributes their existing spending power, taking a little from Tom and Dick so that Harry may have more. This is the politics of 1911 dressed up in new garb: I do not deny that it makes a tremendous appeal on human grounds to our preposterously insecure wage-earning population; but I really must insist that as a serious contribution to the economic problems of an Age of Abundance it is grotesquely inadequate. That it should have been welcomed so warmly by the mass of the poorer classes is startling evidence of the extent to which people's minds are in the grip of scarcity complex; that it should have been greeted so enthusiastically by the leaders of the working-class political parties proves merely

that those leaders think more in terms of day-to-day politics than in terms of the terrific increase in the standard of living made possible by improved technology.

Indeed, to survey the financial policies of the Labour and Co-operative Parties is to realise the degree to which the obsolete notions of nineteenth-century finance still pervade Socialist thought. Too many Socialists still think in terms of taking from the rich to give to the poor; too many Socialists still bother their heads about how to share out equally the existing little cake, when they ought instead to be planning to make the cake itself much bigger. The unequal distribution of wealth matters very much less than the restriction of output that results from so much of the productive plant being (in peacetime) unemployed or under-employed. *Too many Socialists, again, disregarding the logic of* the steady displacement of human energy by inanimate energy, are obsessed with "work" as the necessary title to income. Apart from social reforms financed out of taxation, their main idea of distributing purchasing power to consumers is wages paid for work done—a method that distributes costs to be recovered in prices just as fast as it distributes incomes. It is no doubt excellent that the State should put in hand vast schemes of development involving roads, railways, land, harbours, forests and so on: but the only method so far proposed in official Labour circles for financing such developments is the method of borrowing at interest, either from the capitalist money market in the ordinary way or from the banking system (whether nationalised or not, it makes little difference). In either event the sponsors of these plans contemplate sinking funds—the loans are to be repaid over a period of years. These sinking funds, taken from people's pockets in cash by way of additions to prices or taxes and handed to private banks or nationalised banks to be cancelled out of existence, must inevitably drain money away from the retail market in the absence of debt-free money issues to compensate them.

Apart from these long-term deflationary effects, there is the immediate inflationary effect of State development schemes to

be considered, though hardly anyone ever mentions it (any more than in peacetime people ever mention the inflationary effect of armaments programmes). The money distributed as wages to workers employed on roads, harbours, land drainage and so on will, while these works last, be available in the consumers' market for the purchase of retail goods. No Labour or Co-operative Party policy I ever saw (and I believe I have read them all) proposes any increase in the supply of such retail commodities as clothing, footwear, domestic utensils, electric torches, rugs, radio sets, clocks, rings, tiepins, picture frames, carpets, gloves and all the hundred and one other commodities in public demand. Nor, so far as I am aware, have the Labour or Co-operative Parties any proposals for controlling the retail prices of these articles. In my "tank" analogy I assumed that retail prices were the sum total of industry's costs and no more; but in actual fact the price of a thing is "what it will fetch," and in the absence of effective price control the more money flowing into the consumers' market, the higher the prices consumers' goods command. Schemes of "making work" by State development projects, therefore, will have an immediate inflationary effect so long as they are not accompanied by an all-round control of retail prices and by the national planning of an abundant output of consumers' goods. These are consequences to which neither the Labour Party nor the Co-operative Party has yet given sufficient thought; but they are consequences that will have to be faced if the politics of "the Left" are not to end in fatuity and frustration.

CHAPTER V

NOT POORER BUT RICHER

BETWEEN the two wars Conservative Governments thinly disguised as "National" pursued the politics of Scarcity. After this war we shall need progressive Governments which, increasingly serving consumer-interests, will give us the politics of Plenty. And the first essential is that we shall require two annual Budgets —a Budget of Appreciation in addition to the annual Budget of Taxation. If you have only the Budget of Taxation to look forward to, your outlook is dismal indeed; because, if that Budget is to be balanced, though you may get the tax credits on which you are counting and the war loan interest to which you look forward, it is yourself who will provide the money in high taxation to balance the Budget. Who else is going to provide it?

Nothing could be more comically pathetic than the spectacle of working men of my acquaintance actually reckoning their tax credits among their post-war assets and devising in advance methods of spending the anticipated money. Did the late Sir Kingsley Wood, when as Chancellor of the Exchequer he planned this fiscal innovation, have an eye on its potential electioneering value to the Conservative Party? But a sane appraisal of the whole thing was printed in a technical journal, *The Accountant*, for May 9, 1942: "The famous post-war credit is constantly represented to taxpayers as a benefit that will come back to them in the future. We think the accountancy profession has rightly treated this benefit by ignoring it when evaluating the assets of commercial concerns. It seems incredible that the intention can be to pay it out in money; but, even if it were so disbursed at a future time, that could only be done by increasing taxation in parallel."

We know that after this war there will be a steep rise in in-

dustrial output, due to wartime improvements of a technological nature. Yet recently we have had from highly placed personages like Field-Marshal Smuts and Lord Woolton public pronouncements designed to create the impression that the war will have left us poorer. As the trend of post-war politics will be determined entirely by whether this nation is poorer or richer than it was in 1939, the problem needs to be examined with some care. In what does the wealth or poverty of a nation consist? Surely in its capacity to produce and deliver to its citizens needed goods as and when those citizens require the goods! And judged by this criterion, the end of the war will see Britain, not poorer than she was in 1939, but considerably richer. Let me at this stage quote a few authorities, whose weighty opinions lead to conclusions very different from those of Field-Marshal Smuts and Lord Woolton.

The League of Nations Delegation on Economic Depressions, in the report quoted in an earlier chapter of this book, said:

> The war has awakened the public to a consciousness of the enormous capacity of a modern society to produce when the latent powers of production are organised and directed to a definite objective. In the U.S.A. in 1942, although some five million men were drawn off into the Armed Forces, the real income produced (after eliminating price changes) was 48% higher than in 1939. The machine industry which lies at the basis of our whole industrial system has been expanded in all the highly industrialised belligerent states to a point far in excess of anything known before in history. Why cannot this whole apparatus of production be utilised in peacetime to satisfy the needs of the consumer?

Why not, indeed?

Next I quote from that highly respectable newspaper *The Washington Post*, itself quoted by the London *Times* of October 28, 1943:

> For the first time in American history the men who control production are dealing with an unlimited market, and the

results have been amazing. Next year, it seems, this country will make as much civilian goods as it did before the war; and on top of that it will make as much war goods as civilian goods. "We are going to double the national output over 1939," says Mr. Stuart Chase, "which means that we can double the 1939 standard of living any time we want to." But what will happen after the war? Will production once again be "limited by the market"?

Or will production be limited only by the saturation of consumers' needs? But that will necessitate the politics of Plenty—the discarding of orthodox finance to make way for a system in which debt-free money is made available to consumers up to the point where output is absorbed as fast as it leaves the factories! (*The Washington Post* might have reminded its readers that America's doubled output is being achieved with ten million workers unemployed, that being the official total of Americans in the fighting services.)

And here is an authority of rather a different kind. I quote *The Times* report, November 9, 1942, of a speech by Dr. Charles M. A. Stine, research adviser to the important American firm of Dupont, made to the 1942 convention of the American Chemical Society:

> The war is compressing into the space of months scientific developments which, without this spur of necessity, might have taken half a century to realise. As a result, industry will emerge from the war with a capacity for making scores of chemical and other raw materials on a scale that, only two years ago, was beyond comprehension.

Next, the Rt. Hon. Oliver Lyttelton, Minister of Production (he ought to know!), in his address to the Institute of Chemical Engineers in London on April 2, 1943:

> When peace comes, we shall be confronted with the problem of turning over to peace uses all our vastly increased capacity to produce.

Those words, "vastly increased capacity to produce," really ought to be brought to the notice of Field-Marshal Smuts and Lord Woolton!

Finally, I quote Major-General Fuller, who, as a tank expert in the First World War, may be deemed a person of more than the average far-sightedness. He wrote in the London *Evening Standard*, November 19, 1943:

> What is going to happen when peace returns? To suppose that, so long as accepted economics remain what they are, all the war workers will be absorbed at any period following the war, is to suggest the ridiculous. If they were, the glut of production would be so enormous that the goods produced could not be consumed. Competition between the nations would grow so violent that a third world war would become a certainty. For war is the sole corrector of over-production in an economy governed by under-consumption.

I have quoted sufficient evidence, from persons to whose opinions weight may properly be attached, to suggest that after this war we shall have to concern ourselves with the politics of Plenty, not with Scarcity concepts like those of Britain's pre-war "National" Government. The dominant problem confronting post-war statesmanship will be to devise methods whereby consumers may be supplied with increased purchasing power to soak up the colossal output made possible by wartime improvements in technology.

Once the war is over, and the world is in a position to settle down to a period of peace, the Chancellor of the Exchequer will have to ask himself: "Just exactly how much additional money will have to be circulated to enable the consuming market to absorb industry's increased output this year by comparison with last year's?" Evidently there will have to be investigation by a purely statistical non-political authority, armed with the necessary powers to enable it to supply answers to the following three questions: (1) How far did actual consumption of retail goods

last year fall short of production—in other words, to what extent did retail goods remain in warehouses or shop windows because would-be consumers lacked the money wherewith to buy them? (2) To what extent has possible output been increased by capital extensions or improved processes? (3) To what extent have imports swollen the pool of available consumable goods? These three items—excess production, capital appreciation, imports—will be balanced against their respective antitheses—excess of consumption over production (which happens only in wartime and may be disregarded at this stage of the argument), capital depreciation and exports. The difference by subtraction will give the measure of what I will call the *Appreciation Budget*: by that I mean the extent of the additional money which the Government will have to create for itself (not borrow from bankers) and put into circulation by adding it to the credit side of the annual Budget of Taxation.

If you like, the Budget will be unbalanced by that sum! There is no need for anyone to take fright at the prospect of a deliberately unbalanced Budget. Indeed, to balance the Budget at all is positively preposterous in an epoch when the productivity of industry increases continuously due to technological improvement Our posterity will doubtless regard this generation's obsession for balanced Budgets in very much the same light as that in which we regard our ancestors' obsession for human sacrifice.

The extent to which the annual Budget will have to be unbalanced will have been computed by a statistical authority as far removed from party politics as the National Physical Laboratory is: the method by which the Budget will be unbalanced will be determined by the political considerations appropriate to a democracy.

CHAPTER VI

UNBALANCING THE BUDGET

THERE are three main directions in which the Government, having taken over from bankers the prerogative of creating money, may proceed to unbalance its Budget, greatly to the benefit of its citizens. These are: (1) retail price discount, which I will explain presently; (2) tax remission; (3) State contributions to social services.

A Government preponderantly Labour in its party complexion would certainly apply a proportion of the Appreciation Budget to the assistance of security schemes of the kind proposed by Sir William Beveridge. If such schemes are to be financed by taxation or by direct contribution, they are open to the objection that they take away with one hand what they give with the other hand. Sir William Beveridge himself does not deny this. On the contrary, he insists on a redistribution of wealth as among the workers themselves—which is perhaps only to be expected, seeing that from 1919 to 1937 Sir William was Director of that last stronghold of "Scarcity" financial notions, the London School of Economics. I quote from para. 449 of the White Paper, *The Beveridge Report in Brief* (H.M. Stationery Office, 1942): "Better distribution of purchasing power is required among the wage-earners themselves, as between times of earning and not earning, and between times of heavy family responsibilities." The whole of para. 445 in the same White Paper is devoted to proving that "want could have been abolished before the present war by a redistribution of income within the wage-earning classes, without touching any of the wealthier classes." No doubt, Sir William Beveridge is quite right! but what of it? In the light of the stupendous fact revealed by *The Washington Post* and quoted in the previous chapter, that great industrial nations like the United

States are able in five years actually to double their industrial output, what is the use for Sir William Beveridge or anyone else to try to focus discussion on trifling readjustments of income as between Sir William Beveridge's "one Bristol family in nine" in the year 1937 which "was in sheer physical want," and the "two Bristol families in every five" which, as he assures the readers of the White Paper, had "half as much again as they needed for subsistence"?

At a time when science and invention are making possible such a colossal industrial output as is capable of assuring a high standard of living to everyone, Sir William Beveridge sees fit to lament that "*two Bristol families out of every five have half as much again as they need for subsistence!*" The trouble with Sir William Beveridge is that he himself is suffering badly from scarcity complex; and the unfortunate aspect of it is that he has infected a very large and influential part of the British Labour and Socialist Movement with the same complex. The Beveridge benefits in truth are small enough, and they would cost their recipients dearly. For the sum of £2 a week to a married couple (equivalent to no more than 32/ a week at pre-war prices: see para. 27 of the White Paper) the insured male contributor would be asked to pay not less than 4s. 3d. a week: but the payment would not end there. Who, for instance, would pay the employer's contribution, which, as Sir William Beveridge admits (in para. 297), is "an addition to wages" from the employer's point of view? Wages are a cost of production, to be recovered in the price of what the employer sells: Sir William Beveridge admits that the employer's contribution is from the employer's point of view an addition to wages; therefore the employer's contribution will have to be recovered in the price of what he sells. There is no escaping this logic, as the insured contributor's wife will learn when she finds prices raised against her in the shops! And who would pay the State's contribution? Sir William himself tells us in para. 277: "Most, if not all, citizens of working age will pay in two ways: an insurance contribution which for equal rates of

benefit will be the same for all regardless of means, *and a share of national taxation, direct or indirect, adjusted to their means*" The italics are mine, but there is no mistake whatever about the meaning: the insured contributor—if Britain is to continue with the system of bank-created debt-money which is orthodox finance —will pay income-tax levied on his wages envelope in peacetime as in wartime! But if we are going to discard orthodox finance and, instead, have a system of State-created debt-free money, then some at any rate of the Beveridge contributions will come out of the Appreciation Budget, not burdening anyone but making available to the people the benefits of technological progress in a scientific Age of Plenty.

A Government preponderantly Conservative would probably be eager to apply a proportion of the Appreciation Budget to tax remission—especially to reduction of direct taxation, which falls so heavily on the incomes of the well-to-do In this connection it is worth while to observe that there is no particular virtue in taxation as a thing in itself. The millionaire does not like paying income-tax, but neither does the wage-earner. Taxation on really excessive incomes is socially justifiable as a means of correcting extreme disparity of fortunes; but no one could reasonably claim that, with prices at their 1938 level, taxation on people with less than, say, £500 a year had any justification at all. There is much to be said in wartime for taxing incomes heavily (even the small incomes of the wage-earning classes) as a means of ensuring that available productive power is placed behind the war effort and not at the disposal of individuals; but in peacetime for most people taxation at best is a nuisance and at worst an oppression. This much is certain: with National Debt at its probable post-war level of £600 or so per head of population, any substantial reduction in taxation will be a sheer impossibility so long as the nation continues to tolerate the obsolete system of bank-created debt-money.

But however much or little of the Appreciation Budget may be devoted to tax remission or security contributions, it is financially expedient that the first charge on that Budget should be an all-

round retail price discount. It is not sufficient for the Government to control money at the place of its origin; the Government must also control money at the place where it starts to go out of existence —namely, the retail counter. From the retail counter the money finds its way back to the banking system for cancellation; and, provided that the Government at one end monopolises the creation of credit and at the other end controls the level of retail prices, no ill-disposed persons or would-be saboteurs can tamper with the money system. Price discount, which means State-subsidised retail prices, would have the double merit of: (1) stimulating consumption with consequent happy effects on the standard of living, industry and employment; (2) safeguarding the purchasing power of the currency, thereby averting the inflation which, in the absence of price discount, is almost certain after this war (as after the last) to inflict injustice on the recipients of fixed incomes, among whom old-age and other pensioners are included.

So a proportion of the Appreciation Budget will have to be used for subsidising retail prices in much the same way that the wartime Government has been subsidising food prices But there will be this important difference: instead of adding the amount of the subsidy to National Debt, as the wartime Government has been doing, thereby vexing and burdening posterity, the price discount will be provided out of money created for the purpose, vexing and burdening nobody at all, but distributing in a scientific manner the increased output due to science and invention.

Retail prices will be reduced, possibly at the start by a penny in the shilling. The exact amount will depend, not only on the total extent of the Appreciation Budget itself and on the intentions of the Chancellor of the Exchequer with regard to other possible channels of disposal, but also on another consideration. To reduce retail prices substantially would be to increase the real burden of National Debt, favouring the creditor classes at the expense of those who were not creditors. With an immense National Debt of the present astronomical proportions such a course is clearly undesirable. On the other hand, to permit inflation, while it

would favour the non-bondholding majority of the nation at the expense of war-loan holders, would at the same time badly hit people like pensioners. The desirable course is to keep the purchasing power of money approximately stable (in other words, to have an honest currency) and to apportion the rest of the Appreciation Budget through alternative channels.

The actual working of the price discount need present no difficulty. Retailers would be reimbursed by the Government at, say, monthly intervals on furnishing proof of retail sales at the reduced prices. The consumer would get his (or her) discount either at the time of purchase or by way of periodical dividend such as has been customary in Co-operative shops for a hundred years. (Incidentally, the fact that the Co-operatives are able to account separately hundreds of millions of annual transactions for dividend purposes disposes of any idea that to operate a national price discount would require "hordes of officials.")

There would be no inflation because the price level so far from rising would by hypothesis be lowered, by however small a fraction. Yet there would be no loss of confidence, because manufacturers and traders would get neither a higher nor a lower price than they would expect to get under the operation of the existing financial system: the main difference would be that retailers would have to wait a month or so for the amount of the discount, an inconvenience for which they would be amply compensated in increased business due to the lower level of prices. The Purchase Tax (which is price discount in reverse) has been justified as a wartime measure because people's purchasing power is too great for the available supply of goods in the shops: logically, therefore, price discount is justifiable in peacetime when people's purchasing power is deficient by comparison with the available supply of goods in the shops. The significance of the price discount as an instrument for increasing purchasing power would lie in this: that new money would be pumped into the industrial system at the point where it was most needed, namely, at the retail counter; that it would not appear except in so far as retail transactions

actually took goods off the market; and that the money, not having passed through the industrial "tank" (as in my analogy in Chapter IV), would not leave behind it a trail of increased costs to be recovered in prices.

Such difficulty as is involved in giving effect to the policy of price discount would arise in reaching agreement on the question of what was, in fact, the datum level to which the price discount would be applied. *In the case of standard commodities like bread,* milk and so on there would be no difficulty at all; but throughout the wide range of manufactured goods industry would have to work to an agreed percentage of profit, to be added to ascertained and verifiable costs of production, subject to revision at intervals in the light of changes in productive technique

You could not work a price discount unless the output of goods was actually forthcoming; and in order to ensure full shop windows there would have to be as much national planning of retail output in peacetime as there has been national planning of British farm output in wartime—to the inestimable benefit, incidentally, of food consumers and of everyone concerned in this country's agriculture. Neither the costing nor the planning need present insuperable difficulties to the statesmanship of the period that lies immediately ahead. If in wartime the nation can plan its output of fighting ships, merchant vessels, tanks, guns, airplanes and all the paraphernalia of war, who shall assert that it cannot in peacetime plan its output of domestic requirements, household or garden goods, bicycles, radio sets and sewing-machines? The ardent apostle of undiluted private enterprise will certainly object to such planning, just as he will resent any investigation of trader's or manufacturer's costs with a view to applying an agreed percentage of profit. But the day of undiluted and unlimited private enterprise has passed; if that sort of thing is not expedient for the nation in wartime, it is not good enough in peacetime. Not for nothing do leading business men spend much time and energy in promoting, through political or commercial methods, the kind of business monopolies that are the

very negation of private enterprise! Most manufacturers and enterprisers, who are not monopolists and never expect to be, will no more object to price discount and all that it entails, than farmers have objected to the national planning of food output or to the retail food subsidy in the war years

Objection of quite another kind will come from the more old-fashioned sort of Socialist who, contending that "you cannot plan what you do not own," will demand all-round public ownership of every business whatsoever Well, the nation does not own the farms, still less does the State farm Britain's agricultural land; yet the home food output has been planned with tolerable success in wartime, to the great advantage of food consumers and to the greater prosperity of farmers and farm workers alike. Live-minded Socialists who have kept their thinking up to date have been quick to see that, in a technological age when the possibilities of industrial production are practically limitless, the question of who owns the industrial plant (with certain important exceptions by way of key industries and monopolies) is a question not of policy but of administration. Private ownership has little to commend it when the ownership lies in the hands of absentee proprietors—mere shareholders who, by making use of the Stock Exchange, can have their money in railways to-day, coal to-morrow and cotton the day after. But the personal ownership of farms and small businesses (there are hundreds of thousands of them) is quite another matter when it comes to getting public support at election times: though from the purely economic standpoint, whether the farms, for instance, are owned privately or publicly matters little provided that they fit themselves into a scheme of national planning to this extent—that the output as pre-determined by the planners is delivered by the farms (at a pre-arranged price) to a public authority like the Ministry of Food, which in turn distributes the output to consumers with benefit to the latter of price discount. And that is precisely what (subject to the limitations of the system of bank-created debt-money) has been happening to British agriculture during this war.

The essence of Socialism is, in short, not public ownership of the instruments of production, but planned output combined with public ownership of the product

To argue the special case of Russia is irrelevant. British conditions in 1944 are not the Russian conditions of 1917 In contemporary Britain the productive plant is already here: the time has come to consume far more of its potential output and to save far less for its future extension "Technology," as Mr. Stuart Chase puts it, "demands that consumers now consume." What Britain needs is the Politics of Plenty—consumer politics! In the Russia of 1917, by contrast, the productive plant was not there It did not exist, and the first job of the nascent Socialist State was to set about creating it. To judge from appearances on the Eastern Front the productive plant seems to have been created successfully in Russia; and the history of the immediate post-war years will, one hopes, be the story of Russian consumers being allowed to consume instead of doing as they had to do during their pre-war Five-Year Plans, namely, go comparatively short of consumable goods to enable the productive plant to be extended. There is no reasonable analogy between Soviet politics of the inter-war period and British politics of the period following the Second World War. the economic background is all different, and political ideology based on "workers of the world, unite" is (as we shall see in the last chapter) obsolete in a world where technology is abolishing the working class as fast as it can—a world where long ago in countries like Britain and America labour-effort ceased to be the measure of industrial output, which, instead, has come to be a function of inanimate energy in the shape of horse-power or kilowatts

The very programmes of the Labour and Co-operative Parties themselves are evidence against this obsession for all-round nationalisation. Those programmes include the public ownership of a few key industries and services of a monopoly character, but most of them do not so much as mention the wide range of industries producing consumer-goods. Natural monopolies like

electricity and transport, for instance, cry out for public ownership so that they may be organised the more efficiently as unified concerns. Cut-throat competition between railways and air lines in the nineteen-fifties would be as foolish and socially wasteful as was cut-throat competition between railways and road transport in the nineteen-twenties. Coal and chemicals are better out of the hands of ambitious private owners who might be tempted to take advantage of their monopoly position to sabotage attempts at national planning for community consumption. But such industries and services are special cases, obviously ripe for public ownership. It is always a pity to spoil a good case by overstatement; and the case for the public ownership of electricity, transport, coal and chemicals is weakened, not strengthened, when it is linked with a demand for the nationalisation of the whole range of productive industry, which is not politically possible and not desirable on economic grounds.

Before leaving this question of price discount I must refer to one curious objection to it, which indeed is applied to the entire conception of new money being created under the Appreciation Budget. It is that this new money "will never be cancelled" but will, so the apologists of orthodox finance suggest, go on accumulating and accumulating until, one supposes, the nation will be choked under a mass of paper money!

The short answer to this rather startling objection is, of course, that every retail transaction starts a process which takes money back from the consumers' market to the banking system, where it is cancelled out of existence as manufacturers or traders repay their bank loans. The objection in question, therefore, could be sustained only if it could be proved that under the ordinary working of the financial system as it is, consumable goods were taken out of shop windows and paid for as fast as industry was able to deliver them. In that event, true enough, any new money injected into the consumers' market direct, by price discount or in any other way, would accumulate and "never be cancelled"; but the facts of the system are, as we have seen, far otherwise: un-

saleable surpluses are actually destroyed (or production is prevented from taking place at all) because of the money shortage in the retail market. There is very much leeway to be made up before we need worry about this somewhat fatuous objection. And once the price discount gets going, the process will take care of itself. Deficient production or excessive consumption will speedily be detected and measured by statistical observation, and the amount of the Appreciation Budget reduced accordingly in the ensuing Budget year. Indeed, if the deficiency of production (or excess of consumption) went far enough, there would be no Appreciation Budget at all. In that unhappy but most improbable event, the price discount (which is a proper fraction) would become a purchase tax (which is an improper fraction).

CHAPTER VII

THE INTERNATIONAL ASPECT

IT is now necessary to examine the Politics of Plenty from the standpoint of their international repercussions. And here we enter a sphere which orthodox economists have charged with so much unreality that rational discussion is rendered, to say the least, extremely difficult. City editors, bankers and others to whom the public in the past has paid respectful attention have not hesitated to assert that "Britain lives by her exports." Nothing could be more fantastically untrue! Exports, taken by themselves, are a dead loss to the country and, as such, something to be avoided altogether. Exports are justifiable in the strict business sense only when you can get something of material value in exchange for them. (There is, as we shall see, another sense in which exports may be worth while, namely, when they are used as an instrument for promoting international goodwill.)

Another misleading statement frequently made by the same people is that "we live by our overseas trade." Who lives by overseas trade? Some people do, the majority do not. In 1938, the last peacetime year, the British national income (as shown in a Government paper, *Sources of War Finance*, Cmd. 6520, 1944) was £4,604 millions. In the same year the highest official figure by which to measure our overseas trade—that of retained imports as given in the Board of Trade returns—was no more than £858 millions. When overseas trade is less than 20% of total national income, to assert that "we live by our overseas trade" is most certainly to exaggerate the case! The truth is that four-fifths of British industrial activity is purely domestic in character and has nothing to do with foreign trade.

Essentially the monetary problem is a domestic and not an international one. If this country had a healthy, honest money

system instead of the system of bank-created debt-money, our international trade would be a straightforward exchange of surplus products designed for two main purposes: (1) to diversify home consumption—for instance, through making foreign products like tea and tobacco available to our people; and (2) to secure needed raw materials for our home industries—for instance, rare metals for our steelworks or hides for our leather factories. (It is true, by the way, that with every advance of the science of organic chemistry the second consideration becomes progressively less important: classic examples are dyes like madder and cochineal, which used to be imported from the ends of the earth but are now made at home as the by-products of coal tar; and nitrogen, which, formerly brought by sea thousands of miles round Cape Horn as "Chile nitrates," is now extracted by chemical process from the skies of Britain.)

But there is no straightforward exchange of surplus products about the international trade to which the unhappy nations have grown accustomed under the pressure of the system of bank-created debt-money. Overseas trade between 1919 and 1939 took the form of economic warfare, every nation striving might and main after one-way foreign business—the exchange of goods, not for goods, but for debt! This amazing process, which posterity will doubtless regard as the economics of the lunatic asylum, has been dignified with the name of "overseas investment" and sanctified with the halo of an alleged "favourable balance of trade"—than which, if you really think about it calmly and without prejudice, nothing could be more unfavourable. For consider: to get what the apologists of bankers' finance are pleased to call a "favourable" balance you have to part with more goods than you receive, contenting yourself in return with mere paper acknowledgment of indebtedness to yourself. This, and not the exchange of surpluses to diversify home consumption, is the aim of international trade in a world governed by bankers' financial notions. When you come to think of it, the debtor country could never, even if it wished, discharge its indebtedness in full without

disaster to the lending country. British investments in railway and other enterprises in the Argentine Republic, for example, are said to have originally amounted to some £600 millions: what on earth could we do if the Argentines, moved by a sense of financial rectitude, insisted on repaying their obligations in full by dumping on our shores £600 millions' worth of cattle, wheat or other Argentine products? But repayment in full has no place in the economic scheme of things under a system of bank-created debt-money. The whole idea of foreign business is to get the other man into your debt to an extent that he cannot repay, and then take the skin off him.

This urge for planting British goods on foreigners in exchange for acknowledgments of indebtedness is the natural outcome of a financial system under which, as we have seen, industry is never able to find sufficient customers with money in their pockets to buy the output. The game is not to find foreign "markets": not to export British goods in return for foreign goods. That would not meet the case at all, for the very good reason that, if the British public lacks sufficient money to buy Britain's output of, say, coal, it lacks sufficient money to buy any Spanish oranges for which part of that British coal output may be exchanged. Understanding of this is essential to a proper grasp of the meaning of the economic warfare which masquerades as international trade. The game is to find foreigners who will take our goods and give in exchange, not their goods, but acknowledgments of their indebtedness. He who can foist his goods on foreigners without taking their goods in return is winner in this game of economic imperialism.

Under compulsion of the bank-created debt-money system the nations have been driven to compete fiercely with each other for fields of overseas investment, all countries desiring to export as much as they possibly can, none wishing to import a shillingsworth more than he can help. Mr. C. Hollis quotes in *The Breakdown of Money* (page 20) a lucid explanation of the process given by Mr. Reginald McKenna, then chairman of the Midland Bank, to

the American Bankers' Association in New York on October 4, 1922:

> For over two centuries British capital has been lent to other countries. Year by year England produced more than she consumed herself or could exchange for the products of other nations, and she could not obtain a market for the surplus unless she gave the purchaser a long credit. Foreign loans and foreign issues of all kinds were taken up in England and the proceeds were spent in paying for the surplus production. British factories and workshops were kept in good employment, but it was a condition of their prosperity that a part of their output should be disposed of in this way. Taking the aggregate of the transactions, British creditors received a good return on their investments, but the ability of the debtors to pay has been dependent, speaking generally, on the development of their country being fostered by the receipt of further loans. If we take the whole field of British foreign investments, we shall find that every year England has returned more in loans than she received in interest and the balance of the world's indebtedness to her has been steadily growing.

To which Mr. Hollis appends the pertinent comment: "Now, if the payment of past debts depends necessarily upon the receipt of further loans, debts on balance are not paid at all. Though an individual investor may well gain out of foreign investments, it is an arithmetical certainty that a nation must lose out of them in the long run."

Down to the 1914 war—the late Sir Arthur Michael Samuel (afterwards Lord Mancroft) told the House of Commons when he was Financial Secretary to the Treasury—British overseas investments totalled £6,000 millions, of which no less than £2,000 millions had been lost. These investments took the form of capital exportation—railway material, factory, mine or harbour equipment, agricultural machinery and so on—and they had the effect of extending the property-holding of the British investing

classes in many parts of the world It is true that the making of these goods found work for many British workers of the period—a process which, if you regard "making work" as one of the main purposes of industry, will commend itself to you, though it is probable that the British workers concerned would have preferred, if the matter had been explained to them and they had understood what it was all about, to make useful goods for themselves and their families rather than textile machinery wherewith British-owned Japanese mills should drive Lancashire out of the Chinese market.

Inevitably the competition for fields of overseas investment, combined with the obnoxious debtor-creditor relationship among the nations, has bred international ill-will and, finally, the second world war of this twentieth century The system of "favourable balance" worked after a fashion during the nineteenth century because Britain, first in the industrial field, was able to sustain the role of "workshop of the world." But the spread of industrialisation to other countries—to France, Germany, the United States, Italy, and later Poland, Japan, Czechoslovakia—brought more would-be overseas investors into the game, while at the same time contracting the possible area of overseas investment. Former customers became competitors, a process quickened by the First World War and expedited still further by the present conflict. Since 1939, countries like Brazil, Australia and India have joined the ranks of the advanced manufacturing nations and will presumably when the lights go up desire to compete strenuously to secure each its favourable balance.

Yet the City editors and bankers' apologists do not cease to take for granted a coming era of international competition—intensified as it would be by technological development to a pitch not before reached in history. If these people refer at all to the possibility of greatly increased production after the war, they do it with a gleeful eye on the greater overseas investments which, as they fondly imagine, British capitalists will be able to achieve: provided, of course, that the British working man, whose wages are a "cost

of production," can be induced to accept a standard of living low enough to enable British exporters to undercut their American (or is it Russian or Chinese or Australian?) rivals. Most portentous of all contributions to this amazing chorus was that of the Prime Minister, Mr Winston Churchill, whose broadcast on March 21, 1943, was a monumental example of sheer inability to perceive how technology demands that the standard of living of the common people—even of the British working class—shall be raised to much higher levels. I quote the following from *The Times* report next day:

> We have learnt much about production under the stress of war. Our methods have vastly improved The layout of our factories presents an entirely new and novel picture to the eye. Mass production has been forced upon us. The electrification of industry has been increased 50%. When the fetters of war-time are struck off and we turn free hands to the industrial tasks of peace, we may be astonished at the progress in efficiency we shall suddenly find displayed. The ceaseless improvements in wireless, and the wonders of radiolocation applied to the arts of peace, will employ the radio industry. Striking advances are open for both gas and electricity as the servants of industry, agriculture and the cottage home. Here are gigantic opportunities which, if used . . .

But at this point I feel I ought to interrupt the Prime Minister, to whom I am indeed indebted for his eloquent support of one of the main themes of this book, namely, that thanks to the progress of technology during the war Britain will be capable of greater output when the lights go up than she was able to produce before 1939. Here, as Mr Churchill so truly says, are "gigantic opportunities" which, if used, will surely enable us to deliver a great output of needed goods and services to our own people—to those splendid British men and women who stood up so gallantly to the blitz and whose fortitude in the face of awful peril saved mankind from Hitler's devilish conspiracy against human liberty.

But that apparently is not Mr. Churchill's idea On the contrary, for *The Times* report continued:

> . . . gigantic opportunities which, if used, will increase our power to serve other countries with the goods they want.

What, then, about our own people and the goods they will want—the houses and furniture and clothing and all the rest of the potentially abundant output of consumers' goods? Technology demands the removal of the financial superstitions and other hindrances and obstacles that stand in the way of consumers being allowed to consume. Why this obsession for foisting the goods on to foreigners—presumably, though Mr. Churchill does not say so, in return for their acknowledgments of indebtedness? The effect will be—if the desired result can in fact be realised in the way Mr. Churchill hopes it will—to increase the overseas property-holding of the British investing classes: but was it for that that our people scorned Hitler's blitz and finally encompassed Hitler's defeat? Besides, American technological efficiency has been multiplying no less than our own during the war; countries like Brazil, India and Australia have been developing their manufacturing resources: what if they compete against us "to serve other countries with the goods they want"? Never forget that the wages of British workers are a "cost of production," to be kept as low as possible when international competition gets really intense. Tighten your belts, you heroes of the North African campaigns! Having driven the Germans from the deserts, you have a new task in front of you: to drive our American (or is it Australian, Brazilian, French?) competitors from the investment markets of the world.

It is a relief to turn from Mr. Churchill's fantastic Bourbon outlook to the more realistic ideas of a former Conservative Cabinet Minister, the Rt. Hon. Walter Elliot, M.P., who wrote in the London *Evening Standard* of September 30, 1943:

> After the war the output of the U.S.A. will be one-third higher than it was at the tip-top of the boom levels of the last year in

> peace. All that new output as well as the old will have to be set running along the channels of peace. A new United States, one-third the size of the present, all market, will be needed to soak up this great output—and that in a year and a half or less. You will never handle that vast problem by foreign trade. Give it away—yes! Lease-lend—yes, if neither lease nor lend means what it says! Long-term credit—yes, again, if the word does not mean what it says: for that is to be a credit which must bring neither debit nor audit. Free Trade is no remedy. It is only the internal market that will be able to engulf goods and services at the rate which the post-war machines can deliver.

Could I wish for more eloquent support for my contention that debt-free money should be created by the Government and used for the purpose of unbalancing the Budget by way of increasing the purchasing power of consumers? The bare notion of a "credit which brings neither debit nor audit" will cause bankers to shudder and orthodox economists to hold up their hands in horror; but the imperatives of technology will brook no further clinging to the moth-eaten ideas of a Victorian generation that is one with Nineveh and Tyre.

Healthy international trade is two-way traffic, the swapping of surplus output; it is subsidiary to home production, of which indeed it is no more than the overflow. To the bankers' apologist, on the other hand, international trade is one-way traffic, the achievement of a "favourable balance" which must in the nature of arithmetic be someone else's unfavourable balance, and which therefore must inevitably be a disturbing factor in the world.

But if a great industrial country like Britain, changing over to a debt-free monetary system, applies the price discount to the products of the home industry and to imports, the effects on international trade will be immediate, far-reaching and beneficial. Imports, ceasing to be a menace to home producers, will become a factor in raising the standard of living at home. You will see

this more clearly if you suppose by way of illustration that after this war German reparations take the form of a free gift to this *country of German wines worth, say, £10 millions per annum.* Would this reparation wine be a gain to Britain, or would it not? The answer is: "It would be a gain to Britain if our Government created £10 millions of new money and put that money into circulation (through unbalancing the Budget or in some other way), thereby augmenting the total purchasing power of the British public to the tune of the total price charged for the German wine in the British retail market But if we did not put that additional money into circulation, the wine would merely compete with British home products and British home producers would lose £1 of business for every £1 worth of the wine that found a purchaser." That illustration will enable you to understand why imports are bracketed with excess production and with capital appreciation in determining the permissible extent of the Appreciation Budget. (Incidentally, the reparations muddle after the last war would never have arisen if we had had a debt-free monetary system instead of the system of bank-created debt-money.)

Not the least valuable feature of the price discount would be that it would tend to be self-adjusting. If there were too many imports, the operation of the price discount would bring about a reduction in the general level of prices, with the result that Britain would become a more attractive market for foreign buyers and exports would be stimulated accordingly. Once we have discarded the obsolete system of debt finance, with its ugly concomitants of restricted output and the destruction of so-called "surpluses" which needy people desire but lack the money to buy; once we have based our money supply on the abundance that results from cumulative improvement in technology; once we have ensured the purchasing power of our money, firstly through the national planning of abundance and secondly through the price discount: once these reforms have been accomplished, sterling will become an honest currency, acceptable in any part of the world—acceptable because people everywhere will know it

can be exchanged in the British retail market against needed goods

At this stage you may ask the stock query with which orthodox economists meet any proposal for economic reform: "How shall we secure needed imports?" Under any economic system there is only one way in which we can secure needed imports, and that is to give in exchange for them either our own products or our acknowledgment of indebtedness. The latter alternative would be unthinkable in a Britain which had changed over to a system of debt-free money, so the answer to your question is that we shall get needed imports by exporting British industrial output. Under a system of debt-free money we should find ourselves in a favourable position for overseas trade. We should sell finally consumable retail products at the discounted price, not only to our own nationals but also to foreigners. There could be no question of a retail market in which there were two prices, a discounted price for home consumers and an undiscounted price for overseas buyers. "But," you object again, "what if other countries bar our goods with prohibitive tariffs: how then will you get imports?" If other countries flatly refuse British goods, we shall certainly never get any imports; and that would be a tragedy. But why assume anything so fantastic? Britain in 1939 was still the best market in a world where every nation was obsessed with a desire to sell abroad; and will they not want to sell to us after this war? If you contemplate a deliberate boycott of British goods by nations outraged at our departure from the debt-money system, you are surely overlooking Russia, whose Government presumably does not care a hoot about international bankers or Wall Street magnates; you are overlooking Australia and New Zealand, whose Labour Governments have no particular tenderness for Threadneedle Street or Wall Street either. Even if foreign countries do not themselves follow our lead in the change-over to debt-free money, solid business considerations will attract them to British exports of consumable goods at the discounted price.

At this the objector shifts his ground. "But," he says, "if you are going to export at the discounted price, you will on your own showing be giving goods away and lowering the standard of living at home to that extent." I admit that the more you export, other things being equal, the lower your standard of living. But other things would not be equal if we changed over to debt-free money. One result of the change-over would certainly be a big increase in total production at home, due to the removal of the pre-1939 restrictions imposed by bankers' finance—due to the energising of the "unemployed resources" which Mr. Oliver Lyttelton said (you will remember) were "the condemnation of the pre-war world." Consider these official figures, taken from the White Paper above quoted, *Sources of War Finance*: British national income in the last year of peace (1938) was £4,604 millions; in 1943 (due to the expansion of industry consequent on the abandonment of peacetime monetary restrictions) it was £8,172 millions. The latter figure, reduced to 1938 purchasing power, was equivalent to £5,800 millions: which means that after four years of war the real income of this country, despite all the handicaps war imposes on industry, had risen by no less than 26%. If with four or five million men away in the fighting services we can increase our output by 26%, then in peacetime, with industry going "all out" as a result of financial restrictions being taken off, it is not going to hurt us to part with exports at cut prices—or even, come to that, to give them away. In the light of these considerations the problem "How will you get needed imports?" begins to look very much less terrifying than the orthodox economists would have us believe—though it will be terrifying enough in all conscience if we stick to the system of bank-created debt-money and remain loyal to the pre-war "National" Government's principles of restricted economy.

How would international investment fare if a great country like this were to change over to a debt-free money system? We should not, of course, permit overseas financiers, having acquired

sterling by the mass-sale of consumable goods in this country, to proceed to use that sterling to buy British capital assets. That would be economic invasion of a kind we could never tolerate so long as we remained a democracy. But we may have to reconcile ourselves to the necessity over a long period of ourselves having to export capital to the industrially backward countries of the world. Such capital export would be a give-away transaction as between our own Government and the Governments of the receiving countries, and it would be designed for two main purposes: (1) to enable the receiving country to develop its natural resources and increase its own output, thereby raising the standard of living of its people and augmenting the wealth of the world as a whole; and (2) to ensure for this country future supplies of needed imports. Overseas investment of this sort would not be open to the objection, so weighty in the case of private competitive investment for profit in foreign countries, that it leads to intensive competition among the advanced industrial nations and is thus a potent cause of war; on the contrary, it would lend itself to a high moral purpose, that of promoting the amelioration of conditions of life among the world's backward populations. It would of course have to be co-ordinated internationally to achieve the best results; and I believe this co-ordination of international investment on an intergovernmental basis will be one of the chief functions of whatever international economic authority evolves, after this war, out of the wartime collaboration of the United Nations.

Incidentally, overseas investment of the kind I propose, while it would "make work" in this country, would tend to lower the standard of living at home by swelling the total of exports and thus diminishing the extent of the price discount; the people responsible for national planning would have to set this consideration against the advantages of ensuring future imports and of sweetening world relationships by raising other nations' standards of living: the process would be economic imperialism in reverse gear. And if you ask what will happen when the whole

world's standard of living is as high as our own, I can only quote Major-General Fuller again:

> As wars cannot continue for ever, and as in peacetime more can be produced in an eight-hours day than can be consumed, the logical solution would seem to be: first, to provide the people with increased purchasing power; and secondly, when consumption is saturated, to cut down the hours of work and so give the workers leisure wherein to enjoy their earnings. Never let it escape us that work is but the means to an end, namely, the enjoyment of leisure; and if both victor and vanquished can live joyous lives, what economic cause will there be left to fight about?

What economic cause, indeed?

But the first thing is to achieve our debt-free money system; and we should be foolish to hide from ourselves the truth that powerful forces are at work in the world, not merely to perpetuate the dangerous practice of overseas investment for the profitable private exploitation of backward peoples, but even to impose on the world an international financial organisation which, in effect, would be an *international Government* exercising immense power divorced from any responsibility.

At a time when projects for a post-war international monetary system are being discussed in the U.S.A. by influential British and foreign bankers—projects which we may one day wake up to find have been accepted by our own and other Governments—the British public must be made to understand that any monetary system based directly or indirectly on gold, and having as its main objective the maintenance of the exchange value of one currency in terms of other currencies, must necessarily subordinate home industrial prosperity to other considerations. This fact emerged clearly when the Governor of the Bank of England (Mr. Montagu Norman), giving evidence on March 26, 1930, before the Macmillan Committee, was cross-examined by Mr. Ernest Bevin. The following is reproduced from the official evidence:

MR. BEVIN. Suppose you have to stop your gold flowing out, and therefore restrict credit, is it not possible to have a conscious direction of credit to the home market?

MR. NORMAN. To maintain two separate supplies of credit at different rates?

MR. BEVIN. Yes.

MR. NORMAN. I do not think so.

MR. BEVIN. Is it possible to have some direction of credit through municipalities, so that you maintain the volume of home credit to prevent the blow falling on the workpeople?

MR. NORMAN. I should say it is impossible.

MR. BEVIN. Have you tried to think it out?

MR. NORMAN. I have heard it discussed.

LORD MACMILLAN (the chairman). Is it your view that the consequences of internal restriction of credit, unfortunate as they may appear to be, are outweighed by the advantages of the maintenance of the international position?

MR. NORMAN. Yes, there is a very large benefit.

This illuminating evidence makes it perfectly clear that in the opinion of the then Governor of the Bank of England the overseas investment market matters more than the prosperity of British industry. Mr. Norman apparently had never deemed it worth while troubling to devise means whereby the British workers could be protected against the consequences of a restriction of credit. The Bank of England thought in terms, not of human happiness or human misery as resulting from the prosperity or depression of Britain's fields, factories and mines, but of international money-mongering. Is there any reason at all to suppose that the Bank has changed its mind on that—to it—cardinal principle? What then has Lord Keynes, a director of the Bank, been doing in America? He has been discussing at an international conference of alleged "experts" schemes known respectively as "the American Plan" and "the British Plan" for conducting international finance after this war. But why should

the Keynes scheme be called "the British Plan"? What responsible British authority has sponsored it? The so-called "British Plan" is merely the conception of alleged "experts" at the Bank of England—the same people, indeed, who led Mr. Winston Churchill so badly astray in 1925. Since these people have been (in Mr. Boothby's words) "always wrong," why should we suppose they are going to be any more right now than they have been in the past?

Besides, Lord Keynes himself has been very frank about the objective of his "Plan," and the Plan itself is precisely what I have been saying, namely, a device to impose on the world a hidden and irresponsible but all-powerful Government. Here are the words of Lord Keynes himself, taken from the White Paper, *Proposals for an International Clearing Union* (Cmd. 6437, 1943): "The Clearing Union might become the pivot of the future economic government of the world. . . . We have here a genuine organ of truly international government."

Let no reader fall into the error of supposing that I have lifted a chance passage of Lord Keynes's out of its context: on the contrary, the whole of page eighteen of the White Paper is in the same strain, pleading for the so-called "British Plan" on the ground that it would set up a supra-national financial authority to which the sovereign national Governments would be subordinate. No wonder the Archbishop of Canterbury said in a speech to the Bank Officers' Guild in London on February 6, 1943:

> There has lately been a proposal for setting up a world bank to control the credit of the world. So far as I know, it will be responsible to nobody. I do not see who there is to whom it could possibly be responsible. We have not got anything like a world government, and are plainly not going to have it for some time. So you would have an instance of irresponsible power. Its economic convenience I see perfectly well; but if you regard it as axiomatic that irresponsible power is always

an evil, you will be very shy of this expedient coming in at this stage of human history.

It was the present Earl Baldwin who, when as Mr. Baldwin he was Prime Minister, said: "Power without responsibility has always been the prerogative of the harlot." There is a deadly danger lest the Keynes Plan or something very much like it should be accepted by the British legislature precisely for the reason that it would be regarded as a move in the direction of that international government which many people have come, perhaps rightly, to regard as both essential and inevitable if the world is to be delivered from the curse of war. But a lifebelt is one thing, a pair of handcuffs is quite another. Any system of international finance of which I have yet heard is open to the objection that it is an instrument for the oppression of the human race. By far the better way is that each nation should have its own honest currency related not to gold but to the nation's own capacity for production. Once all countries—or even one or two of the most important producing nations—adopt debt-free currencies of the kind suggested in this book, the international exchanges will proceed to settle themselves on the principle that the exchange value of a currency, other things being equal, is proportionate to what it will buy in retail goods on the home market. And if the currency's domestic purchasing power is determined scrupulously by price discount applied to the national planning of maximum output, then the currency itself approaches the ideal monetary system as nearly as is humanly possible, alike from the internal and international standpoints.

CHAPTER VIII

THE IDEOLOGICAL ASPECT

THE argument in this book is addressed mainly, though by no means exclusively, to those who in the past have classed themselves as progressives and have given political support to the Labour Party. I am aware that, in insisting on the socialisation of the "means of distribution" (that is, money) as the essential preliminary to economic betterment, I am offending against the belief, cherished so long and so deeply by so many Socialists, that ownership of the "means of production" confers economic power. There can indeed be no doubt, as I have already stressed in Chapter VI, that the ownership of industrial monopolies or key industries does confer immense power on the owners, for which reason the socialisation of such monopolies appears to me, as to all Socialists, imperative. But, monopolies apart, I am concerned to show that the ownership of the instruments of production confers very little economic power indeed, and is in fact completely subordinate to the control of the means of distribution, which is finance

I may own a boot factory, but that circumstance considered by itself does not give me economic power: The boot factory is of value to me only to the extent that I can sell its products for money: whether or not I can sell my factory output for money depends, among other things, on how much money is circulating in the outside market; and that, in turn, depends on whether the banking system is expanding credit or contracting it. My ownership of the boot factory does not enable me in any way to influence the policy of the credit-controllers, whose moves are determined more by international considerations than any others.

Or I may own a farm—be one of the "land monopolists" in fact! One of the inescapable obligations of most owners of agricultural land is the payment of tithe redemption annuities and land tax. These have to be paid not in farm produce but in money. So the farm-owner, like the factory-owner, finds himself exposed

to the hazards of a "market" in which good fortune or ill fortune will depend on what the credit-controllers are doing No farm grows crops of money All farms grow crops of food, which have to be sold for money; at every turn the farmer is up against the power of the money-controllers. I was once told by a friend of mine, a City of London solicitor who has intimate business associations with the British agricultural industry: "If you go by train from King's Cross to Peterborough, more than half the farm land you see through the carriage window will be owned by mortgagees." That was in the inter-war period, when farming was a chancy and often unremunerative business—so much so, that many a farmer must have chuckled grimly to himself on hearing Socialists assert that the *ownership of agricultural land conferred economic power!*

The truth is that—always excepting *monopolies*—the question of who is to own the means of production is one, not of high policy, but of mere administration. What really matters to every one of us is who is to own the product. Old-fashioned Socialists thought in terms of nationalising the boot factories; the up-to-date Socialist is concerned with socialising the output of those factories. Let the people get the boots! For while boots are "means of life," boot factories are horridly technical things with which only experts want to be concerned. I have already pointed out in Chapter VI that the essence of Socialism is national planning of output for consumers, combined with a price discount adjusted so that consumers may get the goods. Human nature being what it is, I see no conceivable reason why most manufacturers and farmers should not be quite willing to fit their enterprises in with a system of national planning for community consumption.

And from this the most important political consequences at once begin to follow. Obstacles otherwise immovable are lifted from the path of the party of economic progress. Outstanding political characteristic of the inter-war period in Britain was the stalemate in our party contests. Conservative domination was stereotyped, not because the British electors were inherently unprogressive or felt any particular enthusiasm for their unimaginative and mostly stodgy (though usually "safe") Tory

politicians, but because very many people who did not feel themselves to be proletarians were scared and repelled by the Labour Party's monotonous emphasis on "public ownership" as the panacea for all our economic ills. You don't get the support of a garage-proprietor or small factory-owner by saying. "I am going to nationalise your garage or factory" For one thing, he feels you are going to drag him down to the level of the propertyless masses whose life is dominated more by insecurity than anything else; for another thing, he doubts (and possibly with good reason) whether his garage or factory would run any better if it were nationalised. So with farmers (I mean real working farmers: not the "gentlemen-farmers" who bring to agriculture, as to an expensive hobby, the money they or their fathers have made in some other business). The farmer can hardly be expected to display enthusiasm for a Socialist candidate whose apparent intention is to nationalise him out of existence; and the average farmer knows perfectly well that there is nothing at all the matter with his own skill as a farmer.

My fellow-members of the Labour Party may be disposed to ask: "Why don't you raise this issue at the Party's Annual Conference, and have it settled in a democratic way?" There is a good deal of illusion about the supposed democratic nature of the annual conferences held by the big political parties; and the bigger the party the greater the illusion, as you will see when I proceed to relate what happened when this issue of State-created money was raised at the Annual Conference of the Labour Party held at Hastings in 1933. That conference sat five hours daily from Monday to Friday, 1500 minutes in all. You may think, as I do, that the question of whether or not money, which is the means of distribution, should be socialised was a question of first-class importance; but the Labour Party's National Executive of that day deemed it no more important than a score of other minor matters like anti-vaccination, the payment of local councillors or the appointment of working-class magistrates. Accordingly the subject was given little more than one per cent. of the time of the Conference. I expect my five-minutes speech irritated those

delegates whose main concern was to "get in" with their own motions about vaccination or what not. When I had finished I walked down from the rostrum and took my back seat among a thousand other delegates on the floor of the hall—how different from the front seat on the platform, from which a distinguished member of the National Executive, with all the prestige of a former Minister of the Crown, rose to brush the resolution aside in a few well-chosen phrases which, though (as the Labour Party's own official record of that Conference proves beyond a peradventure) they ignored every single one of my arguments, did manage to create the impression that, anyhow, the Labour Party's orthodox financial policy was all right (as if, only two years previously, the failure of the Labour leadership to understand the workings of the money power had not brought on the Movement humiliation, defeat and disaster!). The Executive speaker had the additional advantage, besides the last word, that the platform was at least a yard higher than the rostrum, and by that much the more impressive. Just how democratic, think you, really is the Annual Conference of the Labour Party or of any other big political party? Merely by relegating to the ruck of "odds and ends" an important resolution submitted to Conference by an enterprising and original member of the party through his divisional organisation, the National Executive can do much to discount in advance any move it is too conservative to like or too ill-informed to understand. Those of us who know British politics from the inside are greatly disturbed at the overweening exercise of power by the party caucuses.

Mr. G. D. H. Cole's Socialism will not, I imagine, be suspected by the average Socialist to have any taint of heterodoxy, and Mr. Cole has written recently in *Great Britain in the Post-War World*:

> There is nothing sacred about nationalisation. The more gigantic the essential instruments of power become, the greater grows the danger that, in centralising their administration, we may be drawn to create a political machine too vast and too complicated to be amenable to any real democratic control, and may thus become ourselves the victims of the very power-

> mania which we are organising ourselves to defeat It is a clear lesson of recent history that democracy cannot be real unless it rests on small groups as its basic units This should make even Socialists wary by now of tearing up by the roots any small man's refuge that is left in a world so ridden as ours by hugeness. It should make them regard the farmer, the shopkeeper, the small manufacturer, not as obstacles in the way of universal centralisation, but as valuable checks upon a dangerous agglomerative tendency

And that seems to me to be a common-sense view, one that will commend itself to the majority of ordinary British citizens, *Socialists by no means excluded.*

Between 1919 and 1939 the Labour Party never at any time won more than 314 of the 615 Parliamentary seats; and the most it held at any one time was 289. I doubt if with everything in its favour it could ever have won more than 330 seats with the sort of appeal on which it used to rely in those inter-war years Of *the 250 mainly agricultural constituencies, the Labour Party* never managed to win even a round dozen! It was one of the tragedies of the inter-war political situation that this block of 250 agricultural constituencies should have been a safe Tory preserve, when all the time the Conservative Party, completely subordinated to the Bank of England, was leaving British agriculture exposed to the icy blasts of world price-cutting—for no better reason than that British overseas investors must have their interest, and that their interest could most conveniently take the form of food imports. So completely did the City of London dominate successive Conservative and (same thing) "National" administrations, that the posturing of Tories as the self-appointed custodians of British agriculture was one of the most gigantic pieces of humbug which British political history has to offer. If after this war the City gets its way (and Mr. Churchill's broadcast speech was an unhappy portent), the Conservative Party will be committing this country to international financial policies on the Keynes pattern, which, whatever their other consequences,

will shatter all hopes of perpetuating in peacetime the policy of home agricultural expansion that has served us so well in these recent years of deadly peril to our food supplies.

What is worrying the farmers more than anything else is mortal dread lest, once the danger is over, British agriculture shall again be sacrificed to the City of London's "overseas investment" obsession as it was after the last war, when the Tory-dominated Coalition Government on a moment's notice scrapped the wartime agricultural controls at the behest of the Bank of England. Nor have the farmers' fears been allayed by the attitude of Mr. Hudson, the Conservative Minister of Agriculture, in the recent dispute over prices. The Labour Party has the chance of a lifetime to win the support of the countryside by committing itself in most unmistakable terms to the maintenance of the Ministry of Food and the existing wartime system of national planning of home food output and food import, combined with the use of the debt-free State-created money for keeping retail food prices at a level not burdensome to the urban population. I am not suggesting that we should continue to grow wheat on lands more suitable for grass—such a matter is one to be decided by people who know the technique of farming All I suggest is that our agriculture shall work in peace as in war to a national plan designed to get maximum food output from the land: which is quite impossible in a Britain dominated by the Bank of England's obsession for overseas investment. In the light of the former betrayal, the farming population has no particular reason for placing its trust in the Conservative Party; and a big turnover of agricultural constituencies to Labour would for the first time become a possibility if Labour would forget its "public ownership" obsession in favour of an agricultural policy based on national planning for community consumption at a price discount. And this means that Labour must break for good and all with orthodox finance.

Now the break with orthodox finance involves the surmounting of another ideological hurdle. Throughout this book I have stressed the politics of the consumer. Taking for granted an immense potential output of consumable goods which needs only

to be planned so that modern technology may do the rest, I have concerned myself with the socialisation of distribution—with a debt-free money system to ensure that the consumer gets the goods. This sort of reasoning ought to appeal strongly to the Co-operative Party as the only political organisation of consumers in this country. I know well that during the first quarter of a century of its existence the Co-operative Party, due to its close association with the Labour Party, has given hardly a sign of awareness that what matters in this twentieth century is that consumers' interests shall become paramount in our political planning. But that phase will soon pass as the Co-operative political leaders awaken to the dazzling possibilities of the situation precipitated by wartime technological development. My concern at the moment is with the Trade Unionists, whose counsels dominate the Labour Party almost to the exclusion of all others; because I am convinced that, unless and until Labour policy gives priority to consumer interests, the Labour Party will never rise above the minority position it occupied throughout the whole of the inter-war period.

Unquestionably the working people of this country owe very much to the Trade Unions, but for which not only workshop conditions but also social conditions in a much wider sense would be far worse than they are to-day. I appreciate as much as anyone the immense benefits which Trade Unionism has conferred on the wage-earners in the past; but the world is changing about our ears, and Trade Unionism's past achievements do not necessarily imply that Trade Unionism should dominate our future political thinking. Keir Hardie used to say that the Labour Party's concern about unemployment was the factor mainly responsible for the Labour Party's growth; and I see grave danger to a political party which, dominated by Trade Union ideology, conceives "making work" as the be-all and end-all of statesmanship. I told in an earlier chapter of this book how, in the decade before the last war, unemployment in Britain averaged half a million; how it grew to a million in the nineteen-twenties and a million-and-a half in the nineteen-thirties. I have quoted in these pages the experience of the United States of America, whose industrial

output of 1939 was increased by 48% in 1942 (with five million men in uniform) and is being doubled in 1944 (with ten million men in uniform). In a world where technology, advancing with seven-league boots, is stepping up the output of goods and stepping down the labour-force both absolutely and per unit of output, it is high time the workers' organisations concerned themselves less with "work-finding" than with "leisure-creating" political policies. Trade Union officials, consciously or unconsciously, have a vested interest in making "jobs"; they view with suspicion and dislike inventions or discoveries that tend to lighten human toil by giving more output for less labour. It must have been a Trade Union official who, watching a thousand men clearing ground with bulldozers and steam navvies, said to his pal: "If they'd use shovels instead of that machinery they could employ ten thousand men instead of one thousand." To which the pal replied: "Yes, and if they'd use saltspoons instead of shovels they'd employ a hundred thousand men instead of ten thousand."

My immediate purpose is to induce my Trade Union friends to shift their emphasis from "work" to "leisure" in their planning of future political policies and programmes. It is appropriate in this connection that I should quote from that superb and monumental piece of oratory—destined, I do not doubt, to endure so long as history shall persist—the speech of M. Léon Blum, Prime Minister in France's "Popular Front" Government of 1936, delivered before his judges at the Supreme Court of Riom, March 11 and 12, 1942:

> The Forty-Hour Week Act had another purpose, beside absorbing unemployment. We were emerging from a universal crisis which everyone called a crisis of over-production. Over-production? Producing too much? Too much in relation to what? Certainly not in relation to the needs of humanity, but too much in relation to the possibility of consumption—i.e. in relation to purchasing power. And in fact we have arrived at a stage in the history of the world when, as a result of the continued progress of industry and technical achievement, as a result of

a bad system of distributing wealth, the universal apparatus of production creates more wealth than it is capable of distributing and the mass of consumers are capable of absorbing. As a result, we have this apparently incomprehensible phenomenon, the destruction of wealth for which the need exists! When sacks of coffee or wheat are burned, it is not the need that is lacking, but the purchasing power. Yet the progress of civilisation and technical achievement are, after all, the collective possession of mankind—the heritage of all that civilisation has bequeathed to us from the first fumbling steps taken by the human race. And such is the system under which we live, that what should be the common good of all mankind, what consequently should be distributed, spread over all in benefits and gain, is, *on the contrary, transformed into excessive* profits for a *few* and unemployment, under-consumption, lowering of wages and misery for the great mass of others I believe that such a state of things will come to an end. This sort of impious divorce between science and society, between nature and life, will not go on for ever. The whole question is to know how, in what manner, by what means, it will change. But without any doubt a time will come when that which is the heritage of all men will become the privilege of each individual, when each will get his share, his little dividend, either in the form of additional remuneration for the same work, or in the form of more leisure for the same wages.

That Trade Unionism will be as necessary in the factories, mines and fields of the future as in those of the past, whether factories, mines and fields are owned privately, nationally, municipally or co-operatively, I do not doubt. Human nature is like that. But the politics of the future will be concerned less with production—which is primarily the function of the scientist and technician—than with consumption, that is to say, getting industry's output to the people who need it. Standards of living depend not on jobs but on output; and the objective of our politics and our planning will be to secure the greatest possible output,

which in turn will depend on the full employment not necessarily of labour but of machinery and equipment To employ a thousand men with bulldozers and all the paraphernalia of modern constructional engineering is, output for output, better than employing ten thousand men with picks and shovels Mr. Stuart Chase wrote in *The Economy of Abundance*, page 105:

> Recently I watched a photoelectric cell inspecting tin cans Its job was to see that each can was properly labelled. The cans were coming down a conveyor belt so rapidly that it was difficult to see them one by one A beam of light played on each can as it passed a given point If the label was in place, it absorbed the light. If there was no label, the beam was reflected into the eye of the watchful cell Instantly the cell transformed the light impulse, and set a mechanism in motion which knocked the can off the moving line. It happened so fast that one could follow the course only with the aid of a diagram.

I have quoted that passage to illustrate what I mean when I say that in planning for output we must not necessarily be concerned with "full employment" of labour. In a cannery like that of Mr Chase's narrative it is obviously better to employ photoelectric cells than girls, because the cells can do the work so much more quickly and efficiently than the girls can do it Besides, the work is drudgery anyhow; and if a Trade Union official tells me he wants jobs found for his members, not for photoelectric cells, I shall warn him off the planning squad! (By the way, Mr. Chase fills two whole pages of his book with a list of the uses of these cells, from trapping burglars and shunting mailbags to inspecting petrol and matching cigar colours.)

More and more in the future the politics of our progressive parties will be dominated by a conscious striving after the attainment of the Leisure State based on power-production and on the distribution of output by means of a debt-free money system. This will mean that, as the years pass, people will come to depend for their incomes less and less on wages paid for actual work performed, more and more on unearned social dividends of one

sort or another representing their share of that common cultural inheritance which has been described so aptly as "the wages of the machine" and which is the sum total of all the achievements of generations of scientists and inventors. That inheritance does not properly belong to workers as such, any more than it belongs to investors or employers as such: rightly considered, it should be divided equally among the entire human race.

An incidental but superlatively important accompaniment of this tendency will be a progressive increase in individual liberty, with a corresponding decline in the power exercised over people's lives by authority, whether of private employers or of the State. To me, this is one of the most alluring facets of the many-sided attractiveness of the Economics of Abundance and the Politics of Plenty. Not the least of the numerous virtues of the technique of debt-free money as applied for the benefit of consumers in a Leisure State is that it reverses the present hideous tendency towards regimentation and encroachment on personal freedom. I have already quoted (in Chapter II) that illuminating passage in which *The Bankers' Magazine* shed sinister light on the hidden motives of the scarcity-mongers—the conviction that "capitalists and wage-earners alike required the good old spur of rewards and punishments." Maybe: but who is to be so fortunate as to apply the spur, who so unlucky as to feel the spur's sharp points? *The Bankers' Magazine* is claiming for the finance controllers power so great that no man is fit to be entrusted with it.

But an increase in personal liberty and a weakening of the powers of authority, such as I am advocating, carries with it an imperative which human society will disregard at its peril. Long overdue is a purposeful broadening and extending of the educational system to fit people for the new freedom: there will have to be a deliberate training of young citizens to enable them to appreciate and turn to good account the leisure forced on them by technology—leisure that will take the form of shorter working week, shorter working life (at both ends) and more holidays. Educationists will have to think in terms of a cultural civilisation in which there will be such an upsurge of art, literature,

music, craftsmanship as never occurred before in the whole of history.

These are the politics, not of "class" but most certainly of revolution: these are the politics of the economic revolution that is the necessary, inevitable complement of the technological revolution already accomplished by the inventors and scientists who have banished Scarcity and introduced Abundance. To unbalance the annual Budget to the extent of the increased production made possible by technology is, in fact, to socialise the increment of output year by year and place it at the disposal of consumers with the instrument of debt-free money. If that is not revolution, I do not know what is. Yet it is revolution with the minimum disturbance of existing institutions: particularly with the least possible interference with that "ownership" which, though doubtless in many instances more illusory than real, does appeal so strongly to Englishmen of all social classes; revolution which effectively sweeps away poverty without making a virtue of dragging anybody down. The only persons whom this revolution would hit would be a comparatively few financial controllers whose activities by way of limiting output and enforcing the destruction of unsaleable surpluses are anti-social anyhow.

What is so urgently needed in British politics is not a change of heart but a change of ideology. The class alignment in Britain to-day is not the class alignment as Marx saw it in the mid-Victorian era; and our political appeal needs adjusting in the light of the fact that not more than 330 of our 615 Parliamentary constituencies have proletarian majorities in the Marxian sense. While we in this generation are eye-witnesses of the decay of Capitalism prophesied by Marx—I quote Mr. Stuart Chase:

> . . . the clean outlines of the struggle between manual worker and capitalist, so manifest in Europe when Marx wrote his immortal treatise, have been blurred . . . Marx, surrounded with the exhausting labour of mid-machine-age conditions, could not quite envisage the power age. His interpreters, living within gunshot of automatic factories, apparently do not know

> that conditions have changed, but continue an interpretation based on Manchester and Birmingham in 1850. America still has a proletariat, but every automatic process, every battery of photoelectric cells, diminishes its numbers and its political importance. The greater the pressure of workers through organisation and Trade Unions, the more promptly the employer instals labour-saving machinery. The impotence of the official Labour Movement in Germany in the face of the Nazi coup was due in considerable part to power-age techniques instituted by the rationalisation movement after the War. These techniques had developed a chronic over-supply of labour, shattering its bargaining power and cohesiveness. The worker, as such, lost his old economic importance as rationalisation gained.

Whether Mr. Chase's diagnosis is right or wrong, events have been happening precisely as if Mr Chase was right. A formidable middle-class of managers and technicians, such as Marx did not foresee (any more than he foresaw Fascism), has indeed blurred the sharp outlines of Marx's class war. It is above all things essential to win these managers, these technicians, to the cause of economic change. Notwithstanding the great wartime increase in trade union membership, the organised workers in Britain are a declining force. The General Strike failed in 1926; it could not hope to succeed in 1946. The time has come for the forces opposed to economic privilege and political stagnation to combine as consumers whose goal is the Leisure State. The existing Labour Party, with its emphasis transferred from "Labour" to "Socialism" and with its ideology attuned to national planning for community consumption, must concentrate its attack on the means of distribution—the financial system which is at once so powerful and so vulnerable: vulnerable, because it depends on nothing more than book entries; because, also, only the merest handful of people would be hurt if it were overthrown. Let this army of consumers in its forward march to victory inscribe on its banners: "End Poverty in an Age of Plenty: Forward to the Leisure State."

THE END